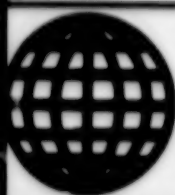


PRS-CAR-90-091  
2 DECEMBER 1990



**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

---

# ***JPRS Report***

---

# **China**

---

# China

JPRS-CAR-90-091

## CONTENTS

12 December 1990

### INTERNATIONAL

#### GENERAL

- Impact of Gulf Crisis on Developing Countries [LIAOWANG No 44] ..... 1  
No Agreement in Uruguay Round GATT Talks; U.S. Blamed [XINHUA] ..... 1

#### SOVIET UNION

- Gorbachev Defends Socialism, Union of Sovereign States [XINHUA] ..... 2

#### WEST EUROPE

- EC Summit in Rome Seen To Speed Integration [LIAOWANG No 45] ..... 2

### POLITICAL

- Doctors Complete Juvenile Hypertension Research [XINHUA] ..... 4  
AFP Reports 11 'Criminals' Executed [Hong Kong AFP] ..... 4  
Cultural Revolution TV Series Popular in Beijing [XINHUA] ..... 4

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

- Beijing Forum Discusses Economic Policies, Recommendations [CAIMAO JINGJI No 8] ..... 5  
Journal on Reform of Urban Land System [JINGJI YANJIU No 8] ..... 21  
Contracted Management System Viewed [JINGJI GUANLI No 10] ..... 27  
Improving State, Enterprise Financial Relationship [JINGJI CANKAO 10 Oct] ..... 32

#### PROVINCIAL

- Economic Relations Developing Between Five Autonomous Regions [XINJIANG RIBAO 8 Oct] . 34  
Xinjiang Commentary on Second Phase of Contract System [XINJIANG RIBAO 6 Oct] ..... 35  
Guangzhou's Seventh Five-Year Plan Economic Performance [GUANGZHOU RIBAO 9 Oct] ..... 35  
Guangzhou's System for Monitoring Macroeconomy Evaluated [GUANGZHOU RIBAO 11 Oct] . 37  
Developing Relations Between Coastal Provinces, Interior [JINGJI CANKAO 27 Oct] ..... 37  
Guangdong Commentary on New Phase of Contract System [NANFANG RIBAO 15 Oct] ..... 38  
Xinjiang Expands Economic Ties to Other Regions [XINHUA] ..... 39

#### FINANCE, BANKING

- New Means of State, Enterprise Interest Distribution [JINGJI YU GUANLI YANJIU No 4] ..... 40  
Start Up Funds Might Trigger Inflation [JINRONG SHIBAO 16 Oct] ..... 42  
People's Bank Official Discusses Money Supply [JINRONG SHIBAO 16 Oct] ..... 44  
Problems With Tight Money Policy, Spot Loans [JINRONG SHIBAO 16 Oct] ..... 47

#### MINERAL RESOURCES

- Shaanxi Province Now Major Gold Producer [XINHUA] ..... 49

## INDUSTRY

Readjustment of Industrial Structure Viewed [JINGJI GUANLI No 8]	49
Current Status of Industrial Modernization Analyzed [LIAOWANG No 40]	53
Textile Industry Completes Basic Structural Readjustment [JINGJI RIBAO 3 Oct]	55
Heilongjiang GVIO Rebounds in September [HEILONGJIANG RIBAO 7 Oct]	55
Textile Industry Promotes Product Quality, Variety	56
Editorial Urges Quality-First Policy [ZHONGGUO FANGZHI BAO 8 Oct]	56
Quality Inspection Teams Dispatched [ZHONGGUO FANGZHI BAO 8 Oct]	57
Minister Wu Wenying Urges Impartiality [JINGJI CANKAO 9 Oct]	57
Plant Loses Textile Product Export License [ZHONGGUO FANGZHI BAO 8 Oct]	58
Steel Enterprises Fail To Pay Stamp Tax [JINGJI RIBAO 11 Oct]	58
Shandong To Classify Industrial Enterprises [DAZHONG RIBAO 18 Oct]	59
Projections for Shanghai Textile Industry [JIEFANG RIBAO 15 Oct]	59
Commentator Urges Technological Transformation [JINGJI RIBAO 19 Oct]	61
Building Materials Industry on Upturn [CHINA DAILY 22 Nov]	62
Gansu Develops New Yarn Technology [XINHUA]	62
Imported Technology Results In Expanded Production [XINHUA]	63
Beijing High Tech Firms Maintain Stability [CHINA DAILY 26 Nov]	63
Industrial Efficiency Rebounds in October [XINHUA]	64
Anhui New Technical Experimental Zone Develops [XINHUA]	64

## SMALL-SCALE ENTERPRISES

Lin Ru, Others Speak at Guangdong Work Conference [NANFANG RIBAO 6 Oct]	64
Progress Report on Heilongjiang Township Enterprises [HEILONGJIANG RIBAO 12 Oct]	66
Zhejiang Township Enterprises Promote Product Quality [RENMIN RIBAO 12 Oct]	67
Rural Industries' Profits Decline [JIEFANG RIBAO 14 Oct]	67
Statistics Show Rapid Growth of Township Industries [ZHONGGUO TONGJI XINXI BAO 15 Oct]	68
Beijing Sees Boom in Nongovernmental Enterprises [XINHUA]	69

## CONSTRUCTION

Construction Ministry Announces More Housing Projects Priority [CHINA DAILY 27 Nov]	69
---	----

## FOREIGN TRADE, INVESTMENT

Dealing With External Debt Situation [GUOJI MAOYI WENTI No 8]	70
Effect of Devaluation on Balance of Trade [CAIMAO JINGJI No 8]	75
Shanghai Develops Foreign Technology Trade [WEN HUI BAO 7 Oct]	78
Shanghai To Improve Supply to Foreign-Funded Enterprises [JIEFANG RIBAO 12 Oct]	79
Guangdong Foreign Parts Assembly Sector 'Thriving' [GUOJI SHANGBAO 16 Oct]	79
Guangzhou's Potential for Expanding Labor Exports [GUANGZHOU RIBAO 21 Oct]	80
More Exports of Manufactured Goods to Japan Expected [GUOJI SHANGBAO 6 Nov]	81
Jiangsu Expands Export-Oriented Industry [XINHUA]	82
Shanghai Issues Foreign-Investment Restrictions [SOUTH CHINA MORNING POST (BUSINESS POST) 26 Nov]	82
Hebei Plans 4 Export Centers Near Bo Hai [XINHUA]	83
Foreign Loans Approved for Cement Industry [CHINA DAILY 30 Nov]	83

## ECONOMIC ZONES

Xiamen's Tax, Profit Separation Experiment Reaps Results [JINGJI RIBAO 12 Oct]	83
Experts Commend Shenzhen's Price Reform Efforts [NANFANG RIBAO 10 Oct]	84
Economic Development Zone Set Up in Chang Jiang Area [XINHUA]	86
Liaoning Plans Economic Zone Along New Expressway [XINHUA]	87
Zhuhai Speeds Foreign Investment Approval Process [XINHUA]	87
Shenzhen Financial Market Records Good Performance [XINHUA]	87
Foreign Investment Rises in Coastal Cities Jan-Sep [CEI Database]	88
Shenzhen Mayor Discusses Development SEZ Rate [XINHUA]	88

## TRANSPORTATION

Shandong Reports Development of Largest Local Port [DAZHONG RIBAO 18 Oct]	88
Tianjin Port To Build Five More Deep Water Berths [XINHUA]	89
Freight, Passenger Transport Industries Show Decline [CHINA DAILY 26 Nov]	89
New Model of Yun-7 Plane Makes Successful Maiden Flight [XINHUA]	89

## AGRICULTURE

Sichuan Hog Output [SICHUAN RIBAO 27 Oct]	89
Yunnan Grain Procurement [YUNNAN RIBAO 17 Nov]	90
Jiangsu Autumn Grain Area [XINHUA RIBAO 13 Nov]	90
Anhui Cotton Procurement [ANHUI RIBAO 8 Nov]	90
Problems for Yunnan Tobacco Industry [YUNNAN RIBAO 17 Sep]	90
Jiangxi Grain Output [JIANGXI RIBAO 1 Nov]	91
Hebei Reorganizes Cotton Procurement Procedures [JINGJI CANKAO 5 Oct]	91
Hebei Farmers Plant Less Wheat [JINGJI CANKAO 23 Sep]	92
Shaanxi Urges Farmland Capital Construction [CHINA DAILY 26 Nov]	92
Hubei Crop Harvest [NONGMIN RIBAO 7 Nov]	93
Jiangxi Fruit Exports [JIANGXI RIBAO 7 Nov]	93

## REGIONAL

### EAST REGION

Ge Hongsheng Appointed Zhejiang Acting Governor [XINHUA]	94
Shanghai To Screen, Rectify Social Organizations [Shanghai Radio]	94
Shanghai Holds Meeting To Correct Corruption [WEN HUI BAO 21 Nov]	94
Hunan Government Delegation Visits Shanghai [Shanghai Radio]	94
Shanghai Stresses Strengthening of Public Order [Shanghai Radio]	95
Antipornography Campaign Bears Results in Anhui [Hefei Radio]	95

### CENTRAL-SOUTH REGION

Hainan Holds Foreign Economic, Trade, Investment Fair [XINHUA]	95
--	----

### NORTH REGION

Taiwan Compatriots Federation Mee's in Beijing [BEIJING RIBAO 26 Oct]	96
Beijing Mediators Settle Civil Disputes [XINHUA]	96
Beijing Hosts More Hong Kong, Macao, Taiwan Visitors [XINHUA]	97
New Governor Brings 'Zest for Change' to Henan [Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) 26 Nov]	97
More Suggestions, Fewer Complaints for Beijing [XINHUA]	98

### NORTHEAST REGION

Heilongjiang's Wuchang County Groups Target Crime [Harbin Radio]	98
Jilin To Abolish, Revise Service Charges, Fines [Changchun Radio]	98
Jilin Holds Forum on Cadre Transfer, Exchange [Changchun Radio]	99
Jilin Governor Discusses Work for 1991 [Changchun Radio]	99
Liaoning Lawyer Mediates Foreign Economic Disputes [XINHUA]	100
Shenyang To Host Traditional Medicine Forum [XINHUA]	101

### NORTHWEST REGION

Shaanxi Meets on Enterprise Ideological Work [Xian Radio]	101
Xinjiang Issues New Press Cards [XINJIANG RIBAO 15 Nov]	101
Scientists Explore Xinjiang's Taklimakan Desert [XINHUA]	102
Reform Brings Changes to Xinjiang's Kazakhs [Beijing TV]	102



## GENERAL

### Impact of Gulf Crisis on Developing Countries

91P30049A Beijing LIAOWANG [OUTLOOK]  
in Chinese No 44, 29 Oct 90 p 40

[Article by special correspondent Sun Weijia (1327 4850 0163): "The Secretary General of the African, Caribbean, Pacific Countries Council Says 'The African, Caribbean, and Pacific Nations Are the Biggest Victims of the Gulf Crisis'"]

[Text] Brussels—The joint conference of the African, Caribbean, Pacific [ACP] countries and the EC held a plenary session in Luxembourg not long ago to discuss the impact of the Gulf crisis on the ACP countries. They passed a resolution pointing out that the Gulf crisis has already threatened the economic lifelines of the nations of Africa, the Caribbean, and the Pacific. Recently Ghebray Berhane, secretary general of the ACP Council, gave an interview to reporters in the Belgium secretariat headquarters. He used this meeting to give the ACP Council's basic stand on the Gulf crisis.

Ghebray said, "The biggest victim during the Gulf crisis is not the United States or Europe, nor is it the Arab nations. It is the nations of Africa, the Caribbean, and the Pacific." He went on to say, "Although the ACP Council does not yet have a coordinated and united stand on the Gulf conflict, as member countries of the United Nations, the ACP Council endorses and supports all of the related resolutions of the UN Security Council. It condemns Iraq's invasion and hostage taking and supports and enforces sanctions against Iraq. In this respect, the stand of the ACP and the international community are in complete agreement; there is no dissension or reservations."

With reference to the statement of Li-lu Ka-na [6849 7627 0595 4780], chairman of the ACP Diplomatic Committee, that he could not accept the idea that the Gulf crisis is a conflict between the North and South, rich and poor countries, Ghebray said, "At any rate, this is the opinion of Ka-na and the Diplomatic Committee. Indeed, at this moment, this conflict is not a North-South conflict. But I must point out that this crisis has already had extremely grave economic repercussions for the ACP countries. That is our concern."

Data from the EC show that, in 1989, foreign debt for the ACP countries totaled \$160 billion. If the price of oil stays around \$30 a barrel, the annual interest on foreign debts to be repaid by ACP countries will double, reaching up to \$5.9 billion. They will also have to spend an additional \$2.5 billion on oil imports each year. This kind of debt problem will worsen. Moreover, industrial countries are not at all enthusiastic about helping the ACP countries resolve their economic difficulties.

In regards to this, Ghebray said, "Even if the industrialized countries are aware to a certain degree of the

existence of this problem, the funds for economic assistance that they have provided and are willing to provide are extremely limited. We believe that, at the same time that the West is providing millions of dollars of aid to the so-called front-line countries (of the Gulf), they should understand and help the ACP countries, which have not directly entered the conflict but have already been harmed by it. Indeed, because of this, we continue to call for a UN Assembly resolution calling for the cancellation of all ACP debts to the EC and its member countries as soon as possible. If the resolution is passed, it will show that the countries of the EC admit that our request is reasonable. It is important to realize that the Gulf crisis is having a latent effect on developed countries, but its effect on the ACP countries is immediate. On the other hand, the deterioration of the economic condition of developing countries will certainly have a large-scale effect on the prospects for world economic development, including that of the developed countries."

Ghebray, in response to a question on what other direct economic influence the Gulf crisis is having on ACP, said that the minority of ACP countries are oil-producing countries, and they have received a relatively small blow. However, the majority of countries rely on oil imports and are generally showing a balance-of-payments deficit and a halt in transportation and industrial production sectors; the situation is extremely serious. Because of this, the ACP countries are doing all they can to rapidly improve and implement the Fourth "Lome Convention." According to the UN Assembly resolution, aside from debt reduction, they are also requesting an increase in loans from EC countries to the ACP, for them to spend 1 percent of their total GNP on assistance to the ACP countries, and to call an international debt conference to adjust and resolve the debt crisis of developing countries. Aside from this, ACP countries are working outside of the Lome Convention to develop cooperation with other countries and international organizations to strengthen their ability to deal with the crisis. Apropos of this, ACP countries believe that developed countries should not attach any political strings, nor will they accept the practice of using economic aid to order other countries around.

### No Agreement in Uruguay Round GATT Talks; U.S. Blamed

OW0712173090 Beijing XINHUA in English  
1446 GMT 7 Dec 90

[Text] Brussels, December 7 (XINHUA)—After five days of intense negotiations, the ministerial meeting of the General Agreement on Trade and Tariffs in the Uruguay Round broke up today without agreement.

At a press conference, the vice chairman of the European Community Commission, Frans Andriessen, said it was decided that the talks should be continued some time next year.

He said that the EC had shown some flexibility on the major issue of agricultural subsidies, but the other side (the United States) had not made an appropriate response.

## SOVIET UNION

### Gorbachev Defends Socialism, Union of Sovereign States

OW0112041090 Beijing XINHUA in English  
0127 GMT 1 Dec 90

[Text] Moscow, November 30 (XINHUA)—Soviet President Mikhail Gorbachev reiterated here Wednesday there was no alternative to the union of sovereign states because of close links between Soviet republics.

"We won't be able to separate. A terrible war will break out if we begin to separate. This could be catastrophic for the country and the entire world," the Soviet president said at a meeting with cultural figures on Wednesday, which was made public by the Soviet television late on Thursday.

Gorbachev also reiterated his adherence to socialism by saying that he defends socialism because of deep internal conviction, not simply because he is general secretary of the Soviet Communist Party.

"Socialism is deep inside all of us, and I do not think it should be wiped out, as some are trying to do," he said in his emotional speech.

"We will never agree with those who want to trample into dirt everything that our fathers and grandfathers did in decades," he said.

He categorically opposed private property on land, calling it a violation of collectivist traditions of the Russian rural community.

He said private property is acceptable in other industries, but it will never become the dominating form of ownership. "The people will not accept this," said Gorbachev.

Collective forms of property ownership—joint-stock and leased property—have better prospects, he stressed.

## WEST EUROPE

### EC Summit in Rome Seen To Speed Integration

91CM0073A Beijing LIAOWANG [OUTLOOK]  
in Chinese No 45, 5 Nov 90 p 45

[Article by special correspondent Wang Yanlin (3769 1750 2651): "EC Summit of Heads of State Decides To Accelerate Integration"]

[Text] (By special wire from Rome) The special EC summit held in this old capital, Rome, on 27 and 28 October will be recorded in the annals of Europe's

history because it has achieved, in German Chancellor Kohl's words, "extraordinarily positive" results.

The agenda of this meeting was extremely broad. Apart from efforts toward European integration, it also included a whole series of important international issues of the day, such as the Gulf crisis, the Middle East question, the European Security Conference, the Uruguay Round, relations with the Soviet Union and the East European countries, as well as relations with the United States and Canada. The meeting issued three statements, namely, on the Gulf crisis, the Middle East question, and the European Security Conference. It demonstrated that the EC, in addition to strengthening its internal structure, is trying to readjust its external relations, and is thus exerting efforts toward a larger role for itself in international affairs.

In order to promote Europe's integration, the 12 countries of the EC will hold two intergovernmental conferences in Rome in the middle of December, when they will discuss the political union of Europe and also Europe's economic and monetary union. The present summit meeting accomplished preparatory work for the intergovernmental conferences on economic and monetary union and also determined the basic objective of political union, and has thus laid the foundation for smooth progress at the forthcoming two intergovernmental conferences. The present meeting also set the precise date, namely 1 January 1994, for the time when the economic and monetary union will move into its second stage. It also set forth the objective targets for the transition period, which will include initiation of a single large European market, participation by all countries in the European monetary system, designation of a unified currency policy directed toward stabilizing commodity prices, establishment of an independent central organ to be in charge of the unified monetary policy, enforcement of a strict budgetary policy, and prohibition of financial means or the issue of large amounts of currency to cover financial deficits. The objective of the second stage will be establishment of a European central bank, and thence to move toward the third stage when a single European currency will finally be created for all of Europe. The president of the European Commission of the EC, Jacques Delors, expressed optimism as to the achievement of these objectives by the year 2000.

The following are the basic objectives decided upon at the present summit meeting for political union: Determination of a unified foreign relations and security policy, strengthening the legislative and supervisory functions of the European Parliament, instituting majority voting internally at the Council of Europe, strengthening the executive powers as well as the judicial functions of the European Commission, and establishing a European citizenship.

Of course, accomplishment of all these objectives will not be all smooth sailing. At the present summit meeting of heads of state, Britain differed in its attitude from the other 11 countries. Britain's prime minister, Mrs.

Thatcher, did not agree with setting the date for the second stage, during which period the transition would have to take place to economic and monetary union. She also opposed the final objective of creating a unified European currency, because she would not abandon the British pound. However, she indicated that Britain is prepared to basically go along with the first stage of economic and monetary union, and that Britain would support establishing a new monetary system and issuance of a common EC currency if it will coexist with the various national currencies. European integration needs Britain, and Britain also cannot stay out of the EC. Britain wanted to have its reservations written into the records of the conference. People rightfully believe that Britain might possibly come to some compromise understanding with the other countries.

With regard to the external relations of the EC, including its attitude in the Gulf crisis, assistance to the Soviet Union and East Europe, and relations with the United States, the EC is basically speaking with one voice.

In the matter of Iraq retaining hostages, some uncertainty among the Western countries has been created by the fact that all French hostages have been released, and some of the British hostages were released after former Prime Minister Heath's visit to Baghdad. All countries involved explained their attitudes at the conference. In the matter of the Gulf crisis, the heads of state at their meeting emphatically declared that under no pretext will governments send representatives to Baghdad to negotiate the release of hostages, and that they will all firmly adhere to the principle of "one for all and all for one." The meeting decided that the EC will send emergency aid, especially food, to the Soviet Union.

At the present meeting, the heads of state of the various countries seem to have been more eager than on previous occasions to seek compromise and uniformity of views, and it appears that this was one of the important reasons for the success of the present meeting. Of course, it was even more important that the objective situation compels Europe to move toward integration at a faster pace.

First, the huge transformations in Eastern Europe and Germany's unification had destroyed the post-World War II situation in Europe, without creating a new order. The EC is now making efforts to establish a new balance, favorable to its own interests, striving to become the main actor on the scene, and this demands acceleration of the process of European integration.

Second, the rapid realization of German unification changed the power ratio within the EC, and, if this internal balance within the EC is not restored as quickly as possible, in a few years it will become a much more difficult task to achieve this balance.

Third, if the EC intends to play a major role in major international affairs, such as the Gulf crisis, for instance, it must be able to speak with one voice.

Fourth, enhanced European integration will better enable Europe to meet increasingly fiercer international economic and trade competition, that is, competition mainly from the United States and Japan.

Of course, European integration will mean that the various countries will gradually have to surrender some of their sovereign rights and interests. Precisely as Mrs. Thatcher had said, it is easy to "talk big," but it gets difficult when specific interests become involved. The future road for European integration will, therefore, by no means be smooth.



**Doctors Complete Juvenile Hypertension Research***OW0512134990 Beijing XINHUA in English  
0822 GMT 5 Dec 90*

[Text] Lhasa, December 5 (XINHUA)—Doctors from Tibet and Beijing have successfully completed a juvenile hypertension research project after more than three years of joint effort.

Doctors involved in the research today told XINHUA that the study entitled "The Discernment and First-Class Prevention of Hypertension Susceptible Juveniles" is one of the state's key scientific and technological items during the Seventh Five-Year Plan period (1986-90).

Doctors from Beijing's Fuwai Hospital, which is under the Chinese Academy of Medical Sciences, have co-operated with doctors from the People's Hospital of Tibet Autonomous Region, since 1987. The purpose of their three-year program was to observe the characteristics of blood pressure in a group of 750 Beijing and Tibetan juveniles from different age groups. The doctors centered their observations on the blood pressure characteristics of juveniles among Tibet's aborigines and other nationalities which have later been assimilated into that group. The researchers were attempting to obtain first-hand data.

The data reveals that the blood pressure of Tibetan juveniles is higher than that of Han Chinese juveniles, however, results from urine investigations show no obvious differences in blood pressure amongst children of different nationalities, said the doctors.

Experts believe that the research of juvenile high blood pressure is of great importance, and doctors may be able to forecast the blood levels of adults according to their earlier blood characteristics. This is particularly significant since doctors will be able to diagnose the existence of high blood pressure at an early date, and possibly be able to prevent or cure the disease.

**AFP Reports 11 'Criminals' Executed***HK0612104690 Hong Kong AFP in English 1039 GMT  
6 Dec 90*

[Text] Beijing, Dec 6 (AFP)—Eleven criminals have been executed in China for crimes ranging from embezzling to pimping or murder, local newspapers said.

Ten were condemned to death recently in Jinan in northeast China after being tried publicly on charges of murder, pimping or theft, said a legal newspaper in Shandong province received here Thursday.

The death sentences were carried out immediately, while 14 other criminals were sentenced to imprisonment, it said.

A man was executed Tuesday in Shanghai for embezzling state funds and carrying out several rapes, the city's daily Wenhui Bo newspaper said.

A woman was also condemned to death Tuesday in Shanghai for misappropriation of funds but has been granted leave to appeal, the newspaper said.

Hundreds of people have been executed in the past seven months as part of an anti-crime crackdown by Chinese authorities.

**Cultural Revolution TV Series Popular in Beijing***OW0712151590 Beijing XINHUA in English  
1413 GMT 7 Dec 90*

[Text] Beijing, December 7 (XINHUA)—Beijing is alive with talk—at dinner tables, on bus rides to work, and during work breaks—about "Expectations", an on-going TV series.

The 50-episode series set against the background of the "Cultural Revolution" (1966-76) depicts the lives of two families with quite different backgrounds which become tied through marriage. The series, with its tender human touch and strong Beijing flavor, has won the hearts of thousands of Beijingers.

Those who experienced personal trials and tribulations during the "Cultural Revolution" find the sincerity, kindness and generosity demonstrated by the heroine especially appealing. As for those engaged in TV performing arts, they find the series represents their efforts to depict the relationships between people and changing social values and morals in a changing society.

China now has 489 television stations which produce over 3,000 TV dramas each year. The Beijing Television Station televises a new domestic TV drama every evening. In spite of this, many residents seem to prefer foreign productions such as the American TV series "Hunter." "Growing Pains", another American series, has captured a large number of followers.

However, the success of "Expectations" has greatly inspired Chinese TV drama makers. As a result the Beijing Television Art Center—creator of "Expectations"—is planning to produce four more quality TV series next year.

## NATIONAL AFFAIRS, POLICY

### Beijing Forum Discusses Economic Policies, Recommendations

9ICE0052A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese  
No 8, 11 Aug 90 pp 3-20

[Speeches delivered at an economic seminar held in Beijing on 2 June, presided over by Zhang Zhuoyuan (1728 0587 0337)]

[Excerpts] The editorial department of this magazine invited about a dozen experts from the economics community to a seminar on 2 June to discuss the major issues relating to the current macroeconomic situation and the drive to improve the economic climate and rectify the economic order in China. The meeting was presided over by Zhang Zhuoyuan. Below is a summary of their speeches.

#### "Thoughts on Economic Reform During the Eighth Five-Year Plan," by Liu Guoguang [0491 0948 0342]

The Eighth and Ninth Five-Year Plans, that is, the last 10 years (1990-2000) of this century, are a pivotal period for socialist modernization in China. During this period, we must accomplish the second of the three steps to our magnificent strategic objective, namely, to double the GNP again by the end of the century and make the people relatively well off. On the economic reform front, we must achieve major breakthroughs and basically replace the old system with the new. Deepening reform and increasing the proportional importance of reform, therefore, lies at the heart of economic work in the 1990's.

Leading comrades on the CPC Central Committee have stressed time and again recently, "The overriding task right now is stabilization." We must both ensure social, political, and economic stability, on the one hand, and enable reform to proceed smoothly on the other. Sometimes the two conflict with each other. Measures that aim at stability now do not necessarily promote stability in the long haul. For example, freezing prices with financial subsidies helps stabilize prices for a while but creates an element of instability in the long run. Another example involves the readjustment of the industrial structure, price reform, and financial reform. Taking the long-term view, we must carry out these reforms, but because they involve the interests of every party, their implementation would be difficult in the short run. There is a relationship between long-term stability and short-term stability here. For this reason, the two must be integrated effectively. The trick is to promote stability through reform and seek development in the midst of stability. We may consider devoting the first two years of the Eighth Five-Year Plan to improving the economic climate and rectifying the economic order. At the beginning of the economic rectification drive, it is necessary

for us to use some administrative centralization measures. Gradually, however, we should more utilize economic methods, put reform on the front burner, and increase its proportional importance. In the even longer term, we must further overhaul our economic mechanisms in the interest of the sustained, stable, and coordinated development of the national economy. Otherwise, neither self-restraining macroeconomic mechanisms nor macroeconomic regulation and control mechanisms can be created properly. Should that come to pass, the result will be a new round of economic overheating and booms alternating with busts.

Reform requires an appropriately relaxed climate. When aggregate demand greatly exceeds aggregate supply and in times of inflation and market disorder, reform is difficult. This is one reason why the drive to improve the economic climate and rectify the economic order that began in 1988 was absolutely necessary. A year and a half later, success has been reported in every area. The macroeconomic climate has been transformed and the economy has stabilized, demonstrated not only by the narrowing of the gap between aggregate social demand and aggregate social supply and the slowing of the soaring rate of industrial growth, but also by the fact that the money supply has been brought under control, price increases have slackened off, and the circulation order has improved. However, none of this means that economic rectification has achieved its objectives. Note that the success has been superficial. Numerous problems lie further beneath the surface. Problems accumulated over the past few years, such as total-volume imbalances, structural dislocations, and falling profitability, are far from being solved satisfactorily. Use administrative fiat to solve superficial problems, and you get instant results. But underlying problems have their roots within the economic mechanisms and cannot be solved easily without deepening reform and changing the mechanisms. In order to overhaul economic mechanisms by continuously deepening reform during the Eighth Five-Year Plan, we should not pursue excessively fast growth. If the GNP and industrial output increase five to six percent and seven to eight percent, respectively, that would be good enough. In short-term planning, we should set up several lines of defense or security lines in regular macroeconomic management. Such security lines could be the investment increase rate and the money supply growth rate. By sounding an alarm at any time, they can effectively rein in expansion and prevent excessive growth. This will help us carry out all sorts of reform by creating a relatively relaxed environment. Otherwise it would be difficult to deepen reform any further.

There are three parts to the overall plan for economic reform in China in the Eighth Five-Year Plan, namely the macroeconomy, the market, and the microeconomy. Reform measures that would strengthen these three parts should be introduced gradually so that reforms in state management, market mechanisms, and enterprise behavior would be merged into an organic whole.



As far as the macroeconomic part is concerned, we should establish truly effective macroeconomic regulatory and control mechanisms. In other words, we should gradually establish a macroeconomic regulatory and control system that is consistent with the principle of combining economic planning with market regulation and uses a mix of economic, administrative, and legal tools, and gradually shift our emphasis from direct control to indirect control, from administrative methods to economic methods. Of course, emphasizing indirect regulation and control does not mean doing away with direct regulation and control by the state completely. A small number of products of vital importance to the national economy and people's livelihood or monopolistic in nature should still be under direct state regulation and control. The extent to which direct government regulation and control is combined with indirect market regulation and control as well as the scope and methods of such combination should be adjusted and improved constantly depending on the actual circumstances.

Turning to the market, we should create market operating mechanisms that can respond sensitively. Right now the crux of our market problems is price distortions. The key to price reform is to reform the mechanisms by which prices are formed and sort out prices. At present planned prices and market prices each account for about 50 percent. If the share of market prices is increased to 70 percent or so through reform in the Eighth Five-Year Plan, then the economy will become much more energized. Judging from the present situation, if wages and welfare manage to keep up, price increases under 10 percent will be tolerable. Say we limit to three or four percent the rate of inflation caused by the excess of money supply over and above what is required by economic growth, which means we have inflation of the magnitude of six or seven percent to support price adjustment and reform. That way we should be able to basically straighten out prices and increase the proportion of market prices in just a few short years. As the drive to improve the economic climate and rectify the economic order produces more results and as the macroeconomy is better balanced and market order is further improved, I think we should seize the opportunity to introduce price reform measures one after another. As far as the price structure is concerned, in 1989 we appropriately raised the contract procurement prices of grain and cotton and the prices of salt and salt products. In the second half of the year, passenger tickets, foreign exchange list prices, and interest rates charged by banks were also raised by wide margins. Because we have kept a tight lid on lending and the money supply and because people no longer think inflationary, these price readjustments did not cause strong reactions or repercussions. Thus price reform carried out under good leadership step by step in order to readjust a number of blatantly unjustifiable prices without delay helps make even more effective use of the market as a regulator, on the one hand, and set the stage for optimizing the economic structure, on the other.

Turning to the microeconomic aspect, we must put together a microeconomic basis that is full of vigor and dynamism. As the principal player on the microeconomic level, the enterprise must be an economic entity that has true decision-making authority in its operations and is accountable for its own profits and losses. It must be a self-restraining legal person where government administration and enterprise management are separated and property rights are clearly defined. That being the case, I think the enterprise contract system remains vital as a transitional measure. In the first two years of the Eighth Five-Year Plan, something should be done to overcome myopic behavior and standardize contract forms, contents, and contract base figures. Enterprises should be allowed and encouraged to merge, lease, acquire, or organize enterprise groups. At the same time, however, groundwork should be laid for the transition to the enterprise share-holding system. Right now some basic work can be done. For example, we may launch a number of pilot projects to experiment with share-holding, prepare legislation diligently, standardize the issue of shares, and nurture the stock market, etc. The share-holding system may be a better way to clarify enterprise property rights. We are entirely capable of hardening enterprise budgetary restraints through the diversification of share ownership within a framework of public ownership. It should be particularly emphasized that the prolonged existence of money-losing enterprises of a commercial nature is unacceptable, whether our standpoint is to readjust the structure or raise profits. Thus it is inevitable for some enterprises to be closed, shut down, merged, or forced to switch to another line of production. There is no stopping the enterprise bankruptcy system now. As for social problems like unemployment that crop up in the wake of bankruptcy, they can be solved by improving the social security system.

**"Some Views on the Current Economic Situation," by  
Liao Jili [1394 1323 4539] of the State Planning  
Commission**

**1. The Chinese Economy Has Entered the Commodity Economy Track.**

Since the second half of 1988, China's drive to improve the economic climate and rectify the economic order has been enormously successful. A produce economy before reform, to date the Chinese economy has been transformed into a commodity economy. According to estimates based on the data available, commodity production presently accounts for about 80 percent of all industrial and agricultural output. In 1989, the gross value of industrial and agricultural output amounted to 2,800 billion yuan, which can be broken down as follows: 1) gross value of agricultural output, 30 percent; 2) output value of township and town enterprises, 20 percent; 3) light industrial output value, 20 percent. All three categories belong overwhelmingly in the realm of commodity production; 4) heavy industrial output is also based on market demand in part. If we put the four categories together, the ratio between commodity production and non-commodity production would be 80:20.

Turning to circulation, social commodity retail sales were valued at 810 billion yuan. In addition, 200 billion yuan worth of capital goods made their way into the market. Between them, they constituted over 80 percent of the national income. This is the basic situation in China's economy, the starting point that we must consider as we work to improve the economic climate and rectify the economic order.

## 2. Combining Economic Planning with Market Regulation Is a Comprehensive Concept with Broad Significance.

To me, planning presumes the existence of the market, while the market is guided by planning. The two depend on, advance, and are integrated with each other. The basis of their integration is the law of value and the supply-demand relations. Overall the integration between planning and the market has four aspects: 1) Planned decision-making, including balancing aggregate supply with aggregate demand, balancing major proportions, and economic and social development objectives. This is the greatest strength of the planned economy as well as its worst weakness should we turn planning into a tool of detailed management. It is essential that we make this point clear because we have a wealth of experience and have learned numerous lessons in this area. 2) Economic policies, including the industrial policy, technological policy, open policy, as well as the fiscal policy, financial policy, and foreign trade policy. Planning is the concentrated expression of economic policies. Moreover, planning relies on economic policies for its realization. Thus, economic policies are a major component of the integration between planning and the market. In the past, when we were following a product economy, we emphasized the role of planning targets, not that of economic policies, which gave rise to intractable problems. 3) Economic regulatory methods, the tangible expression of planned decision-making and economic policies. Examples include the tax system and tax rates, credit and interest rates, foreign exchange and exchange rates, and prices and inflation. Economic regulatory tools may be readjusted flexibly depending on circumstances and time. 4) Regulatory tools like legislation, administration of justice, auditing, and supervision are used mainly to protect the interests of consumers and producers and the stability of society as a whole. It is through them that the state discharges its responsibilities in economic regulation.

## 3. It Is Possible To Accomplish the Basic Task of Improving the Economic Climate and Rectifying the Economic Order On Time.

What dominated economic life between 1984 and 1988 was economic heating, which resulted in an aggregate social demand vastly bigger than the aggregate social supply, inflation, structural dislocations, unfair distribution, and market turmoil. Preliminary estimates put the excess of aggregate social demand over social supply at over 500 billion yuan and the increase rate of social retail prices at 70 percent during those five years. The shortfall

was primarily financed by currency depreciation, borrowing, and "living off our past gains." Economic rectification began in the second half of 1988. The "double tight" policy was implemented with resolve. Retrenchment proceeded on four fronts. First, almost 100 billion yuan in fixed assets investments were cut. Second, social purchasing power was slashed by 100 billion yuan (mainly reflected in household savings and cash on hand). Third, the funding activities of miscellaneous companies engaged in profiteering and speculation were curbed, also by about 100 billion yuan. Fourth, an additional 100 billion yuan were absorbed through price increases. Between them, they account for retrenchment to the tune of 400 billion yuan. These figures are approximations. The actual numbers may be higher or lower. If these estimates prove to be fairly close to the real numbers, we can say economic rectification is more than half completed. Of course, we still have several problems that have been building up for years. Commodity prices are still too high, the budget deficit is rising, the industrial structure is irrational, and enterprises are scarcely profitable. In all these areas, the goals of economic rectification have not been met. We need to continue to readjust them aggressively. We should have a correct understanding of market sluggishness. Right now we are still in that stage where the market is soft due to insufficient demand, not too much demand. This stage should not last too long. Otherwise, production and profits would continue their slide, costs would go up, and supply would lag, which in turn would give rise to inflation. This is a critical year. We have one more year next year. Provided we try to realize the objectives of improving the economic climate, rectifying the economic order, and deepening reform in earnest and increase aggregate supply and decrease aggregate demand together, we may be able to further close the gap between aggregate demand and aggregate supply, curb inflation, and put the national economy on the path of sustained, stable, and coordinated development within three years.

## 4. The Principal Task of Deepening Reform Is To Broaden the Role of Market Regulation Under Improved Macroeconomic Regulation and Control.

Improving the economic climate, rectifying the economic order, and deepening reform should dovetail with one another. Depending on changes in the objective situation, sometimes readjustment should be given primacy, sometimes reform should be emphasized. Right now reform must play second fiddle to readjustment. When readjustment has borne significant results, we must consider the next step of reform. If we fail to do so, readjustment may fall short of success for lack of a final effort. This is because readjustment itself requires reform. In fact, the purpose of readjustment is to help ensure the smooth progress of reform. Nowadays there are all kinds of proposals. Some people call for the readjustment of the industrial structure. Some want price readjustment. Some advocate the opening up of foreign markets. In view of the current economic situation, however, we cannot concentrate on one thing only

and be impatient for success. I think we must increase comprehensive research and tackle the following problems:

First, reform the macroeconomic regulatory and control system. We have been practicing economic planning over the years but have never been able to bring out its superiority. Planning was often unbalanced and did not work to regulate and control society. Therefore, we must tackle the strengthening of the macro balancing, regulation, and control system as a top priority and achieve a basic balance between aggregate supply and aggregate demand. In the future planning should be separated into three kinds, strategic goal planning, implementation planning, and readjustment planning. Strategic goal planning runs on a 10-year basis; implementation planning, five years; and adjustment planning, one year. That way we can break the cycle of the past of "development, adjustment, redevelopment, and readjustment." Once this problem is solved, other reforms can be managed readily.

Second, reform the banking management system so that money can both stabilize the economy and promote its growth. The key to following a commodity economy is money. The function of money is two-fold. On the one hand, it stabilizes the economy. On the other hand, it promotes its development. Monetary balance in effect is the balance between aggregate supply and aggregate demand. The central bank is the bank of banks. Its prime mission is to stabilize the currency and create conditions for economic growth. The central bank should be free from administrative interference and be allowed to set up branches based on economic regions (such as Chang Jiang delta and Zhu Jiang Delta). Unconstrained by local administrative organs, the branches should be free to regulate the market supply-demand relations and structural imbalances, etc. through a credit policy and interest rates.

Third, make further use of the socialist market. Our market is a socialist market, one that is planned, organized, managed, and led. It is different from the capitalist market. Although our market too is haphazard, its haphazardness is different from that of the capitalist market. Provided it is guided properly, the haphazardness of the socialist market is basically harmless. The socialist market can solve problems that planning cannot and make up for the latter's weaknesses. Mention market and people often immediately think of it as the source of chaos. In fact, economic chaos in a socialist country is mainly caused by the macroeconomy getting out of control. If the macroeconomy is in order, then the market will not be disorderly. And even when chaos does occur on the market, it can be readily dealt with. Planning and the market are two aspects both of which are indispensable to the socialist commodity economy. At present, within the framework of retrenchment, we are raising interest rates, increasing the money supply and working funds as appropriate, expanding exports, readjusting prices, and lowering exchange rates. All this

broadens the role of the market, consciously and unconsciously. We should review our experience and make use of the market as a regulator in order to marry reform at home with the open policy overseas more effectively and develop China's commodity economy.

Fourth, vitalize the enterprise aggressively and straighten out the relations between it and the state. The enterprise is the principal player in the economy. Its major task is not to pursue fast growth, a rising output value, or an expanding scale of production, but economic profits and social benefits. These days most of the problems are with the state, not the enterprise. Administrative managerial agencies keep a close watch on the enterprise, either demanding this or that or prohibiting this or that. The situation is most unbearable for enterprises owned by the whole people. For one thing, we still deny the role of the commodity, money, and the market, and continue to use old administrative methods to run the enterprise. Second, in managing the enterprise, we always try to "prevent floods with multiple dragons," resulting in "rigidity the bottom and disorganization at the top." Consequently, the initiative of the enterprise is not mobilized. We have now reached a stage where the new should replace the old in the enterprise contract system. We should consider how the contract system can be improved under macroeconomic unified regulation and control to better mobilize the enthusiasm of the enterprise for self-restraint.

**"Improvement and Rectification Continue To Advance, The Tasks Facing Us Are Still Formidable," by Zhang Zhongji [1728 6988 1015] of the State Statistics Bureau**

After more than a year of economic rectification, aggregate social demand has been effectively checked, the gap between supply and demand has narrowed appreciably, the momentum of price increases has been lessening month after month, and the circulation order has improved. This shows that the drive to improve the economic climate and rectify the economic order has been so successful that we are now able to move onto another phase. The previous phase was characterized by the effort to rein in the aggregate volume so as to stabilize the economy as a whole. Today the economic rectification drive has entered the "assault" phase, with emphasis on speeding up the readjustment of the economic structure, increasing profits, and deepening reform, all within the framework of restraining the aggregate volume. The characteristic of this phase is that instead of stressing limiting the aggregate volume, we will increase it relatively and seek development amid stability, regulating and controlling with the right amount of stringency. [passage omitted]

**Outstanding Problems That Must Be Addressed Now**

A few positive signs have appeared in the economy during the last year and more. But problems at a deeper level, such as structural irrationalities, shortcoming in the economic system, and low profitability, have not been resolved. Meanwhile, new problems have emerged.



including market sluggishness, over-stocking, and falling industrial output. The tasks we face continue to be arduous. Our main concern at present is to ensure a proper rate of industrial expansion in order to ease the plight of the treasury and the enterprise, lessen the pressure for jobs, maintain overall stability, and create the conditions for structural readjustment.

At present industrial output is being constrained by mainly these reasons:

1. In terms of the aggregate volume, the market demand is soft. Right now the potential demand is considerable, with the surplus purchasing power accumulated over the years hitting a high 700 billion yuan. Because of the "double-tight" policy, however, there is not enough short-term demand, the most important signs of which are as follows. First, the curb on fixed assets investments is so stringent that it has dampened the demand for capital goods. Second, with the economy in a downturn, many enterprises have closed down or are operating at half-capacity. Uncertain about their earning prospects this year, urban residents have modified their consumer behavior. A few years ago, it was "easy come, easy go." Now they live within their means and are more inclined to save. During the first quarter, per capita monthly income spent on living expenses by urban residents was 115.3 yuan. After accounting for price increases, the income actually rose 2.9 percent over the same period last year. Meanwhile, living expenses fell 4.1 percent from the same period a year ago. Most of the increase in incomes was converted into savings. Third, per capita net real incomes among peasants dropped 1.6 percent last year. Since the beginning of this year, agricultural byproducts in country fair trade have dropped sharply, further eroding the peasant's purchasing power and making the rural market even weaker than its urban counterpart. Fourth, institutional purchasing power has been curbed. Between January and April, 22 billion yuan worth of consumer goods were purchased by social institutions, down 5.2 percent from the same period last year.

2. At the structural level, the principal reason is that readjustment is an arduous task where progress is slow. Inventories pile up in the warehouses even as surplus purchasing power rises, which is an anomaly. Structural readjustment requires inputs in the form of funds and takes a long period of time. It cannot be accomplished quickly when enterprises are barely profitable and the state is caught in fund shortages. But there are other factors, such as irrationalities in the economic system and the lack of coordination between economic operating mechanisms. To begin with, the readjustment of the aggregate volume and the optimal combination of capital goods are necessarily accompanied by the closing, suspending, merging, or reorganization of some enterprises. When this happens in the absence of a comprehensive social security system, social stability is bound to be affected. Second, the state demands readjustment in accordance with the industrial policy. To ensure a flow of revenues into the local coffers and means of livelihood

for their residents, local governments at all levels must protect major local concerns that pay the most taxes and generate the most profits. Third, given the distorted price system, the localities often balk at investing in basic industries. Fourth, the soft market breeds local protectionism; there is a reluctance to allow nonlocal commodities to enter the local market, which militates against improving the product mix by "rewarding the good and weeding out the bad." In addition, some enterprise cadres and workers have such negative attitudes as "waiting, depending, and demanding" and show no initiative to readjust. Today, therefore, we must regulate and control with just the right degree of strictness and ease the immediate problems, on the one hand, and grasp the opportunity to accelerate structural readjustment and increase profitability, on the other.

**"The Current Economic Situation and Countermeasures,"** by Chen Gong [7115 0364] of Chinese People's University, Department of Finance

Since September 1988, we have been working to improve the economic climate and rectify the economic order for over a year and a half with some success. The momentum of a ballooning demand has been curbed, industrial expansion, which had been racing ahead, has been reined in, the economic structure has become more rational, and soaring inflation has moderated. Accompanying such across-the-board retrenchment are negative phenomena like market sluggishness, fund shortages, and sagging production.

#### **Total Volume Imbalances Have Been Improved But Glaring Structural Imbalances Remain**

A correct assessment of the current economic situation is a precondition for decisionmaking for the next phase of economic rectification. The overall situation now is that total-volume imbalances have moderated while structural contradictions remain striking.

In China, aggregate demand usually exceeds aggregate supply. Because the several rounds of economic readjustment since 1984 have not been thoroughgoing, the imbalances in the total volume have gotten worse. The focus of the first phase of the retrenchment policy begun in September 1988 was to curb aggregate demand. One and one-half years later, demand has been reduced in part by cutting back on the scale of capital construction, consolidating companies, controlling institutional purchasing power, and improving tax collection and management. Meanwhile, soaring prices and the increase in household savings digested and assimilated part of the purchasing power. By October 1989, the momentum of an inflated demand had been arrested, the overheated economy had cooled, the imbalance between aggregate supply and demand had begun to be corrected, and the increase rate of retail prices had dropped below two digits.

Total volume analysis cannot be separated from structural analysis. Otherwise, we may end up with a misdiagnosis. On the one hand, there is a structural aspect to

both aggregate supply and aggregate demand. In particular, whether or not the product mix meets the current demand structure is an important factor behind the total volume balance. If the product mix does not meet the requirements of the demand structure, the result would still be too little aggregate supply relative to the aggregate demand, even if the total volume is in balance. On the other hand, total volume imbalances and structural imbalances often coexist. Relatively speaking, it is easier to readjust the former than the latter. Also, one cannot readjust the total volume fully without correspondingly readjusting the structure. When we say the current campaign to improve the economic climate and rectify the economic order has entered the "assault" stage, we essentially mean that it has moved from the stage of total volume readjustment to a more difficult one, that of structural readjustment.

Every sign of the economy suggests that right now, just as total volume imbalances are getting better, structural imbalances have become more striking.

Superficially, a sluggish market and swollen inventories indicate a flagging demand. However, fixed assets investments presently total over 400 billion yuan and the CPC Central Committee has decided to set the investment scale for 1990 at a level that would not cause a decline in work volume compared to the preceding year. Household savings increased more than 130 billion yuan in 1989 and continued to rise in the first quarter of this year. Hence, it is untenable to suggest that the main problem at present is insufficient aggregate demand. In general terms, the problem is not insufficient demand, but that demand has not been converted into real purchasing power. At a deeper level, the main imbalance is still a structural one.

As far as investment goods go, energy and raw material shortages, have existent for years, have eased, and market prices have dropped. In the first quarter of this year, investments in energy, transportation, posts and telecommunications rose substantially over the same period last year. The overall scale of planned investments in projects under construction grew 20 percent over the same period last year. In the past, the production of some investment goods had expanded as a response to over-investment. It is normal for the market for these goods to soften. Orders for equipment and building materials for some key construction projects have fallen off and demand has weakened. The principal reason is that it takes time for projects and funds to be readjusted in the course of the readjustment of the investment structure. Over the past few years, funds were scattered and investments within the budget were limited. There were not enough funds to cover key construction projects, while capital in society was scattered among millions of households. Those who were allocated projects had no funds, and vice versa. The result was a mismatch between the distribution structure and the investment structure. Thus the lack of demand for certain investment goods was only a temporary phenomenon. The solution is to readjust the distribution

pattern and concentrate funds properly to ensure that key projects are funded. That way the distribution structure will be more in line with the readjusted investment structure.

Turning to consumer goods, the main issue here is how to convert surplus purchasing power into real purchasing power. Besides adapting to changes in the consumption psychology of the public after the economic climate is improved and economic order rectified, guiding consumption, and stimulating the market, the crux of the problem here is still one of readjusting the product mix and increasing popular commodities in great demand.

Right now it is mainly domestic electrical appliances, particularly durable consumer goods and some upscale consumer goods that are affected by soft sales. The demand for basic means of livelihood is growing at a normal rate, and in fact outstrips supply. The variety of small articles of daily use have decreased sharply because they are not profitable, thus there is a large supply-demand gap there. On the export front, the trend is also upward. Overall, the situation in the consumer goods market is that shortages and overstocking exist side by side. Reportedly, the decline of social commodity retail sales slowed in April and summer merchandise and improved and new commodities are selling briskly. According to a survey on 35 large department stores in the nation, net domestic sales rose 2.9 percent in April compared to the same period a year ago and substantially higher sales were recorded for 14 categories of commodities out of a total of 23. Accordingly, we can expect the consumer goods market to firm up and expand as the drive to improve the economic climate and rectify the economic order intensifies.

The so-called fund shortages and "triangular debt" issue also prove that structural imbalances are the main imbalance right now. A more accurate formulation of the fund shortages problem is this: Inventories pile up while cash is in short supply. That is, funds in the form of commodities cannot be converted into funds in the form of currency. The heart of the problem remains that some products are not marketable or that there is over-production relative to demand, thus tying up a large amount of funds in the form of manufactured goods. Thus it follows that a massive injection of funds is no basic solution to the problem of fund shortages. As long as products cannot find a buyer and production continues, the more funds we put into the system, the worse the inventory pile-up will be, without easing the problem of fund shortages. The root cause of the "triangular debt" can also be found in the divorce between supply, production, and marketing. Since finished products cannot be converted into funds in the form of cash, there is a lack of means of payment, thus severing the account-settlement chain. Even if a drive is organized regionally or nationally to pay off the triangular debt, it will only be a temporary, partial solution and will do nothing to eradicate and end the defaulting problem. Herein also lies the reason why people settle accounts first and then fall behind in payment later. To resolve the "triangular



debt" issue at its root, we also must readjust the product mix to bring production, supply, and marketing in line with one another and ensure that funds circulate smoothly.

#### **Temper Retrenchment With Some Relaxation; Make Structural Readjustment a Priority**

The two rounds of retrenchment in 1985 and 1987 prove that across-the-board relaxation unaccompanied by notable improvement in the economic structure will only mean a return to the old state of affairs in proportion and lead to worse inflation. When total volume has been curbed to a certain extent, we must redirect our focus to structural readjustment in a timely way. In order to do so, it is imperative that we ease things up appropriately even as we continue to hold down the total volume. This is because full-fledged retrenchment errs in the same way as imposing one solution uniformly across the board. In contrast, a policy that tempers retrenchment with relaxation, that both guarantees and reduces, and that favors some more than others will help speed up structural readjustment.

There are two ways to achieve structural readjustment: one, readjustment by increasing volume (or circulation), and two, stock readjustment. The principal purpose of readjustment by increasing volume is to adjust the product mix and achieve limited objectives within a short period of time. It involves injecting an appropriate amount of working funds, increasing the output of marketable commodities, opening up the market, and energizing circulation. In order for circulation readjustment to work, a number of conditions must be met: 1) investment must be done just right, do not overdo it; 2) it must revolve around structural readjustment closely; 3) attention must be paid to investment returns. Make use of them to truly drive the economy and straighten out circulation. Raise the output of popular and marketable products. Energize circulation. If investing is not properly done, the product mix is not improved, and circulation is not vitalized, then unsold goods will rise as investment goes up, without easing fund shortages. Since the last quarter of last year, we have increased lending by 100 billion yuan, which has definitely helped stimulate production and energize circulation and will continue to do so. However, the effects have not been all that satisfactory. The problem is that some of the loans were turned into unsold goods made by inefficient enterprises and some were used by enterprises that had suspended production in whole or in part to pay off the wages of their workers. These loans will not generate any returns and hence do nothing to improve the structure and may actually potentially cause credit expansion and inflation.

In terms of the magnitude of readjustment, adjustment by increasing the volume is essentially micro-readjustment. It treats the symptoms, not the disease itself. When we are dealing with gross structural imbalances, we cannot rely on this kind of readjustment alone to solve the problem in a fundamental way. We must also carry out stock readjustment, which primarily means

adjusting the enterprise organizational structure and achieving the rational circulation and optimal combination of capital goods based on the nation's industrial policy. Stock readjustment will directly disturb the vested interests of enterprises and workers and will readily cause social repercussions at a time when the bankruptcy law and the social security system have not yet been put on a sound footing. But the fact that it is difficult does not mean we should be deterred by such difficulties and take no action. This is because without stock readjustment, structural adjustment cannot be thorough. Thus we should create a favorable climate for stock readjustment as we adjust by increasing the total volume and, where objective conditions allow, promptly carry out stock readjustment. In his government work report, Premier Li Peng demanded that all sectors and localities draw up a list of commodities whose production should be limited, eliminated, or guaranteed, based on the national industrial policy and market demand. This in effect is what stock readjustment requires. Reportedly Liaoning has been adhering consistently to the principle of "tackling both root causes and symptoms, with emphasis on the former" since last year and has been carrying out stock readjustment and effectively dealing with the problems of factory suspending production and laying off workers by having enterprises switch to another line of product, by merging enterprises, eliminating enterprises, and through lateral cooperation. The biggest problem about stock readjustment is figuring out what to do about workers affected by factory shut-down. Accordingly, fueled by economic readjustment, gradually establishing and improving the labor and employment system, the social welfare and social security system, as well as training workers in turns is strategically significant for maintaining sustained, steady, and coordinated economic development in China.

#### **"Structural Readjustment Must Accompany Total Volume Retrenchment," by Liu Rongchang (0491 3310 3318) of the CASS Institute of Finance, Trade, and Commodities Economics**

The macroeconomic situation at present can be described as a mix of difficulties and hope, of crises and opportunities. The key to surviving the crises and grabbing the opportunities is to concentrate on both reducing the total volume and readjusting the structure at the same time and advancing the two in a coordinated way.

Superficially, some of the problems today, such as the soft market for some products, fund shortages facing many enterprises, stagnating industrial production, and shut-down or semi-shut-down factories, certainly have something to do with the fiscal policy and the credit squeeze. At a deeper level, however, in addition to institutional factors, the problems are inherently related to the serious structural imbalances and the fact that the total volume has been consistently bloated for years. Precisely because of the numerous problems in the product mix, such as the lack of variety, the overpricing of inferior products, the inability to adapt to changing

market demand, limited uses, and poor technical performance, do we have the present structural market weaknesses at a time when market choices have increased and competition is becoming more and more heated by the day. This is the inevitable consequence of strengthening the market mechanisms and abiding by the principle of rewarding the strong and weeding out the weak. And precisely because of the irrationalities in the social industrial structure and enterprise organizational structure, particularly the bias in social investment in recent years in favor of processing industries and a number of thoughtlessly distributed duplicated projects do we have the gross mismatch between the retrenchment of the total volume and the existing over-extended scale of industry and unbalanced industrial structure, resulting in widespread fund shortages. Given the coexistence between the loss of control on total volume and the imbalance in structure, the only option available to us is to hold the line on total volume as appropriate and optimize the structure at the same time. On the one hand, we should invest a relatively limited amount of money, an amount that the state and society can afford, to strengthen the weak sectors of the national economy and ensure that key industries and enterprises are supplied preferentially with the funds, materials, and supplies they need. On the other hand, we should eliminate or merge those irrational sectors of the economy. This is the real meaning of what we usually refer to as combining retrenchment with relaxation, seeking flexibility amid retrenchment, achieving orderliness amid retrenchment, and using retrenchment to advance coordination. Herein lies the key to achieving economic rectification and gradually steering the national economy onto the path of steady, sustained, and coordinated development.

More than a year of practice in economic rectification proves that if we fail to make substantive progress in economic structural readjustment at the same time as we limit the total volume and if we fail to effectively reverse the tendency to produce and expand blindly regardless of market demand, resource conditions, and the overall structural optimal effects simply to keep the status quo, we will not be able to end the total volume explosion, structural imbalances, low efficiency, and other related weaknesses even if we keep on increasing "seed money" and even if state-owned commercial companies and material supply agencies procure yet more products from the enterprises. Optimizing the structure and guaranteeing as well as reducing was both the beginning and the end of the retrenchment policy. If the former does not work, the latter cannot carry on. The current problem is that at the same time as we tighten the total volume, the readjustment of the economic structure has been lagging behind or not advancing in a coordinated way. What is to be done?

First, we must continue the policy of reducing total volume without wavering at all. At the same time, we must be careful to tighten the screws just right. At a time when structural imbalances have not been notably

improved, we absolutely must not slacken the retrenchment policy. Instead, we must pay close attention to whether the policy is working and to the effects of structural readjustment. It takes time to curb the total volume. We must not be impatient for results. When I say "tightening the screws just right," I mean, for one thing, that belt-tightening should not be achieved in one fell swoop; we must not look for success overnight. Macro financial and credit control should be accomplished gradually, step by step, to avoid excessive social repercussions resulting from overly rapid retrenchment. For another, after full studies and investigations, we should carefully select our priorities and draw up a policy that is stricter in some areas than others and that rewards and limits differentially. Third, allow industries, products, enterprises a grace period or transitional period as they seek to bring about structural readjustment. Do not flash the "red sign" right away. Instead, give them a transitional "weaning" period.

Second, in accordance with the principle of integrating economic planning with market regulation, we should do a good job in structural readjustment by level even as we go in for total-volume retrenchment. Generally speaking, the coordination of the macro industrial structure should mainly be realized through industrial planning. In recent years, we have been following a policy favoring energy, transportation, and basic raw materials, with some initial success. That is a good beginning. Second, we should make full use of industrial management and industrial planning in readjusting the distribution of productive forces, the technological structure, and the overall market supply and demand relations in order to create a reliable coordinating and guiding mechanism for the macro retrenchment policy, which will be even more effective than applying the retrenchment policy down to the enterprise level in ending administrative local separatism. As for readjusting the product mix of the ordinary enterprise, that should be mainly accomplished through the market. How far we should go in retrenchment depends on how well a particular product is selling, its profit margin, and the rate of fund circulation. This way we can organically integrate planning with the market and macro-, medium-, and micro-total volume control with structural readjustment, so that each has its own emphasis and can do its part.

Third, take pains to closely coordinate closely the readjustment of the economic structure with the readjustment of the interest structure to harmonize the two. To a large extent, questions of economic structure are questions of interest structure. The difficulties of structural readjustment that China has experienced in the course of economic rectification are actually directly related to the relations of interest distribution and changes in them. When we get down to the details of total-volume retrenchment and deal with the vested interests of localities, sectors, and enterprises, we often run into enormous resistance. Thus a practical and unavoidable issue is how to correct through the deepening of reform any errors in the distribution of interests that are unfavorable to the adjustment of the economic structure. This

entails, among other things, carrying out needed and possible price reform by taking advantage of the opportunity created by the narrowing of the gap between aggregate social supply and demand and the softening of the market for some products; reforming the current financial system which still is based on the administrative subordinate relations of enterprises and institutions, which mainly consists of "eating from separate stoves" (finance contracting), and which tends to encourage local separatism; further improving and gradually doing away with the contract system, which to a certain extent militates against flexible structural readjustment and optimal reorganization by enterprises; and reforming the credit system plagued by such weaknesses as loan repayment before tax, which is a soft restraint. All this must be gradually put on the agenda of reform deepening. Otherwise, the progress and effectiveness of structural readjustment will certainly be undermined and total volume retrenchment will run into stiff resistance from and be constrained by vested interests.

**"Careful Guidance, Prudent Operation,"** by Lu Baifu [7120 4102 3940] of the State Council Economic, Technological, and Social Research Development Center

1. We must look at the current situation in two ways: We should be aware of the success as well as the problems and take a cautiously optimistic attitude.

After 20 months of effort, China's drive to improve the economic climate and rectify the economic order has had some initial success. The superficial objectives of economic rectification have basically been met. At a deeper level, however, the problems have not been resolved. In fact, new imbalance and problems have cropped up, the major ones being: 1) The huge budget deficit and the bloated money supply have not been resolved or resolved fully. The economic consequences of the over-distribution of national income have not been undone. 2) No marked substantive progress has been made in the readjustment of the product mix, the enterprise organizational structure, or the industrial structure. After credit was eased, a number of industries producing unpopular products have been expanding once again. The total scale of investment in projects under construction has not been rolled back significantly, probably over 130 million yuan, still considerably higher than what the nation can afford. Moreover, there is still strong pressure to go over the limit and increase investment. 4) A stable balance has yet to be achieved in the market supply-demand relations. The structural supply-demand gap is quite wide and many commodities are still in short supply. All this suggests that aggregate demand may potentially continue to expand and that structural imbalances are still with us. We must not lower our guard.

2. Whether or not the current economic rectification drive has achieved its objectives shall be determined with reference to the situation in real economic life. Of the six objectives set forth in the "Decision" of the Third Plenary Session of the 13th CPC Central Committee, the

first three mainly have to do with treating the symptoms and have largely been met. The last three objectives have to do with treating the disease itself and have not been realized by and large. We cannot, therefore, claim that the drive to improve the economic climate and rectify the economic order has succeeded. Some comrades say that retrenchment has succeeded, that in effect the economic rectification drive has succeeded. If they are referring to what is in "stock" economically, then besides the annual investment in fixed assets, other things like the budget, credit, and money supply have never been scaled back and in fact maintain a brisk growth rate each year. The only thing that has been trimmed is the growth rate of the increment. It would be dangerous to believe that it is unnecessary to curb the increment or that the increment should actually go up. Such thinking may take us all the way back to the pre-1988 situation. This has been proven by the experience from 1984 to 1988 when there was one reversal after another. Right now, therefore, we must adhere to the "retrenchment" policy, persevere with structural readjustment and the restoration of economic order, and carry on with economic rectification to the very end.

3. Now that economic rectification has had a measure of success, the imbalances in total volume have begun to correct themselves, and the availability of certain consumer goods and investment goods has increased, people have come up with different choices regarding China's economic development strategy. That is understandable. Nevertheless, now is not the time to change our overall strategy of improving the economic climate and rectifying the economic order. To be sure, after the economic rectification enters its second stage, the thrust of the macroeconomic policy should be appropriate readjustment. No longer do we need a retrenchment policy as stringent and all-embracing as that in the first stage. The intensity of regulation also has to be fine-tuned as appropriate. The objectives of the second stage of the battle are to readjust retrenchment emphases and intensity as appropriate while doing our best to make sure that the overall economy grows at a proper rate and that the gap between aggregate social supply and aggregate social demand is further narrowed. Through a policy that would increase investment properly on a preferential basis and with our emphasis on readjusting the economic structure, we should concentrate on problems at a deeper level, carrying out industrial coordination, improving economic mechanisms, and sorting out the distribution relations, among other things.

The present Chinese economy, however, has many deeply embedded problems, both longstanding problems inherited from three decades ago and new ones that appeared in the decade of reform. Their causes are institutional, structural and policy-related. We cannot rely on the macroeconomic policy alone to solve these problems. What we need to do is to introduce appropriate coordinated reform to sort out the relations in a fundamental way by changing mechanisms. So it follows that the introduction of some appropriate reform measures during the period of economic rectification will not



only help rectify the economy, but the measures themselves have a good chance of proving effective. For instance, given the present supply-demand situation on the market, if we introduce appropriate price reform measures, they will have a better chance of succeeding because the market is currently weak. Moreover, price reform itself may prove to be a boost to the weak market and get the merchandise moving again. The result is "killing two birds with one stone."

Next year China will enter the Eighth Five-Year Plan, a critical period for the development of its economy before the end of the century. Because our original goal—"laying the groundwork in the 1980's and revitalizing in the 1990's"—suffered a slight setback in the Seventh Five-Year Plan, which delayed the laying of the groundwork, we need to do some catching up in the Eighth Five-Year Plan. Thus the Eighth Five-Year Plan will be a time when economic rectification goes hand in hand with reform and development. During this period, the Chinese economy must pursue a stable course but at the same time move forward. We must improve the economic climate as well as develop the economy. We must readjust as well as deepen reform. To be really effective, all economic planning and the design of any reform measures must proceed from these "dual" objectives.

**"Some Views on Improvement and Rectification and Deepening Reform at Present," by Li Jiange (2621 0494 7041) of the State Planning Commission**

How should we assess the current economic situation? In our opinion, given the size of the nation, we must begin by affirming our enormous achievement of bringing inflation from a high 18 percent down to about five percent in a short period of time. International experiences, especially comparative studies of the development experience of newly industrialized countries and regions in Asia and Latin America, prove that whether or not a country succeeds in controlling inflation determines its ability to maintain long-term sustained economic growth and avoid stagflation and a debt crisis. By limiting aggregate social demand, China has tentatively stabilized the economy to date and restored public confidence, which is of inestimable value for future development and reform. Consumers are pleased with the fact that during the first quarter of this year basic living expenses for urban workers rose just 1.8 percent compared to the same period a year ago. Objectively speaking, this is a rare achievement in the economic history of China or the rest of the world, whatever the methods used. Be that as it may, I believe the most difficult period for the Chinese economy is not yet over and deep-seated imbalances in Chinese economic life are far from being resolved. Now is the time to heal the sick body of the Chinese economy by nourishing it. There are two entirely different ways to do so.

One is to give it stimulants. Specifically, this school argues that after the drive to improve the economic climate and rectify the economic order has shown initial success, the priority now is to develop the economy

vigorously. Ease credit. Inject new funds into the money supply. Significantly increase fixed assets investment and supplement the enterprise working funds to make up for the slack in the past. Increase the demand for investment goods and consumer goods to help the economy rebound. Temporarily ease the difficulties of the treasury, the enterprise, and the employment agency. Judging from the situation in the third quarter of 1989, it was indeed necessary to boost the money supply appropriately and make the sectors producing goods in short supply the focus of our investment strategy in order to get the market moving again and help enterprises pay off their "triangular debts." The problem is that we often decide the size of the money supply by the economic growth rate at the time and the clamor of enterprises for working funds. But the fact is that there is a time lag between funds are injected into the money supply and the economic growth rate reacts to them. Accustomed as they are to existing and operating in an environment that is awash with funds and even inflationary, the demands by Chinese enterprises for funds are unjustifiable in many cases. If and when the money supply is increased by a margin sufficient to satisfy most enterprises and achieve economic growth at a medium level, I believe the days when we have a new round of wild inflation are not too far away. If that comes to pass, the price we have paid for over a year of economic rectification as well as its achievements will go down the drain and the national economy will be mired in worse difficulties.

The other way is to cure the symptoms and the disease at the same time. This will entail using the opportunity today when both the economy and public confidence have stabilized to unveil a string of measures to deepen reform and resolve at the source the deep-rooted problems in the economic system so that the economy henceforth will follow a path of positive growth.

There are also differences of opinion when it comes to formulating the plan to deepen reform in the future. One opinion is that it is primarily the spontaneity of the market that has thrown the national economy into utter chaos, thereby creating so many difficulties for the Chinese economy. Thus, it is argued, command planning must be restored to a large extent, the scope of materials allocation must be enlarged, and the economic structure should be readjusted through administrative fiat. People who hold this opinion often put industrial policy on a pedestal, with only apparent justification. In view of the fact that industrial policy has almost become a concept that people take for granted and is widely used, it is imperative that it be reconsidered. The industrial policy was introduced into China from abroad and has never been analyzed in depth. This concept became popular in early 1987 with the blessing of a leading comrade at the time. The country was then at a stage when the 1986 coordinated reform plan centered on price reform had been shelved and enterprise contracting had become the mainstream. Some comrades believe we can map out a Chinese road to reform by combining the national industrial policy with enterprise contracting. But what really is

industrial policy? We must first make that clear. We know that some countries have been able to use an industrial policy to achieve economic take-off because they had been pursuing a preferential policy on the basis of sound market mechanisms. The result was that the leading sectors of the economy had had a chance to develop ahead of others and became the engine that powered the growth of the economy as a whole. Be that as it may, economists in these nations generally agree that the industrial policy could play a limited role only when the market has "lost its effectiveness." Some of our comrades are greatly mistaken about this point, thinking that the industrial policy could be equated with omnipotent state interference. If that were the case, China would have had an industrial policy back in the 1950's. Clearly, compared to countries that have adopted an industrial policy successfully, what we lack is not intervention, but sound market mechanisms. Needless to say, in China there is still much room for improvement in the scope and extent of intervention, but given the fact that our basic conditions totally differ from those of other nations, it would be a misuse of energy to copy foreign practices mechanically.

Of course, in making the above analysis, we are not saying that we can give up state interference. On the contrary, improving and strengthening macroeconomic regulation and control by the state should be an extremely important task of the deepening of reform. To give the state full and adequate information to perform macroeconomic regulation and control and later graduate to indirect regulation and control, we must pursue price reform energetically and let market mechanisms play an even more effective role. Many economists believe, rightly, that given the current soft market, now is a good opportunity to push ahead with price reform. Of course, since the fourth quarter of 1989, the money supply has been growing too rapidly; perhaps the opportunity for price reform has gone. However, if we take a few remedial measures, we should still be able to do something on the price reform front. During the Eighth Five-Year Plan, we should maintain a stringent fiscal and financial policy throughout, limit the increase in the overall price level, and, within that framework, do our best to sort out the prices of main capital goods and gradually abolish dual-track pricing system. Only thus can we accomplish the task of readjusting the economic structure during the Eighth Five-Year Plan and lay the groundwork for stable and effective economic growth.

In short, despite much new knowledge acquired through practice over the past few years, the problems of reform still can be summarized in terms of the three elements put forward when the Seventh Five-Year Plan was being drawn up. They are macro regulation and control, the establishment of a market, and self-management for enterprises. If reform in the Eighth Five-Year Plan closely revolves around these three elements and proceeds in a coordinated way, the 1990's should be full of hope for China.

**"Reflections on the Effects of the Easing of Funds," by Hu Ji [5170 1323] of the State Council Economic, Technological, and Social Development Research Center**

To alleviate the enterprise production and market sales problems and ease the fund supply somewhat, since October of last year and through April of this year, about 150 billion yuan in new loan funds have been added. Monthly loans have been increasing at a rate of 17-19 percent (compared to the same period last year,) up from around 10 percent just three months earlier, and in April, it even topped 19.6 percent, approaching the record high set in the first quarter of 1988. Meanwhile, the rate of increase in  $M_2$ , money supply by its broad definition, ( $M_2$  = cash + enterprises' and units' demand deposits + personal savings) has also risen sharply from 12.1 percent in August 1989 to 22.9 percent in April of this year. The credit ease has helped improve the industrial and commercial enterprises' fund situation. Industrial productions and market sales have shown signs of recovering, but it is by no means a clear success: At the macroeconomic level, production growth is still slow, market sales is sluggish, and economic efficiency continues to be on the decline. Between January and April of this year, the average industrial growth rate was 0.5 percent, average retail sales of society's goods showed a 3.3-percent negative growth, and in April, industrial output grew two percent while retail sales fell 3.3 percent. A few years ago, it normally took three months for a massive increase in loan funds to bring productions up to par again. This time around, we have been increasing loan funds substantially for seven months in a row, and still there is no significant production increase. In 1984, for every 10,000 yuan increase in industrial output, it required an increase of 18.9 yuan in current funds; in 1989, it needed 30 yuan, and in the first quarter of this year, 35 yuan. Clearly, there has been a decline in fund-use efficiency.

Low fund-use efficiency is due mainly to the structural imbalance in the way funds are being used and to sluggish fund circulation. First, funds are idled or spending being "held back." Information provided by the Industrial and Commercial Bank of China indicates that under normal circumstances, current fund with norm employed in production and current fund without norm employed in circulation should maintain a 70:30 ratio, and out of that proportion, no more than 20 percent of the current fund norm should be taken up by finished goods. Statistics gathered at the end of March this year from 40,000 industrial and communications enterprises (which account for 90 percent of the nation's industrial loans), however, showed that only 63 percent of their current funds were with norm and 37 were without, and as much as 31.4 percent of the current fund norm was taken up by finished goods. Another piece of information indicated that at the end of March, nationwide, industrial loans have increased by 20.8 billion yuan since the beginning of the year but funds taken up by finished goods have increased by 12.6 billion yuan and funds taken up by merchandise shipped have increased by 14.5 billion yuan. In addition, defaults



among enterprises have increased by 14.3 billion yuan. In other words, because of the overstocking of goods, slow sales, and widespread defaults, some products are not realizing their value, and the cycle of monetary funds—production funds—commodity funds is blocked and fund circulation is slowed. Second, there is massive draining of current funds. Data from the Industrial and Commercial Bank again showed that a substantial portion, perhaps as much as one-half, of the industrial and communications enterprises' current funds is being diverted to other uses: around 40 percent is being used on investments and nearly 60 percent is used to subsidize enterprise losses (including phony profits which are in fact losses). Since enterprises now have less funds of their own, almost all funds being diverted are bank loans. These problems are caused partly by the unsound system but mostly by the system's inherent flaws. Here we would like to discuss several issues worth pondering during this period of further rectification and improvement.

1. The question of controlling the total money supply: Rectification and improvement began with controlling the total money supply to reduce investment demands in key areas and curtail consumption demands. By the fourth quarter of 1989, the gap between total supply and total demand has narrowed substantially both in absolute and relative terms compared to a year ago, and the inflated current purchasing power is brought under control. Current purchasing power is reflected by the amount of  $M_0$  (cash) in the economy, and the monthly rate of increase in  $M_0$  has slowed from 20-58 percent in the first three quarters of 1989 to around 10 percent in the fourth quarter—which equals the sum of the rates of economic growth and price increase—and down to three percent so far this year. Thus, price increase has slowed and the overheated economy has cooled off rapidly. By the same token, market sales and industrial growth are showing zero and even negative growth. Meanwhile, the rate of increase in total purchasing power (current plus potential purchasing power) as reflected by  $M_2$ , which is money supply by its broad definition, has risen from 12-14 percent in the first three quarter of last year to around 19 percent in the fourth quarter, and above 22 percent so far this year. Under the circumstances, while we want to control the total money supply, it has become necessary to ease the fund supply somewhat, increase investment loans to key construction and technological transformation projects, and increase current fund loans. The point is that, one, we must determine by how much the fund supply can be eased without causing another round of inflated total demand and credit volume; and two, we must guide the direction of flow of funds to facilitate structural readjustment and optimization, enliven production and circulation, and improve use-efficiency. But as mentioned earlier, since the increase in loan funds, not only has the preferential policy not worked properly but enterprises have been demanding more loans. In the first four months of this year, actual

loans took up 16.9 percent of the entire year's planned volume, and the first six months' planned loans will amount to nearly 35 percent of the entire year's planned volume. These percentages exceed by far what is reasonable under normal circumstances. At this rate, either the eased money supply will have to be tightened later in the year or the money supply will exceed the planned amount. Both will undermine the country's economic stability. Thus, after we have successfully put the total money supply under control through rectification and improvement, if we continue to make money supply the only issue, especially if we continue to deem injecting new funds the only solution to the problems created by the mix of old and new conflicts, we will be oversimplifying matters.

2. The question of how to deal with the market slump and production slide: First, a sharp rise is always followed by a sharp fall. The duration from August of last year to April and May of this year marked two periods of sharp contrasts which came after the total money supply was put under control: One period was marked by worsened inflation. Because people panicked and because of the negative interest rate in reality, the consumption behavior was distorted, and people took their cash and went into panic buying and started run on banks, leading to shortages in the market and irrational production decisions. The other period was marked by a slower rate of increase in prices. Partly because people were less anxious, and partly because of the positive interest rate in reality, consumption behavior was back to normal. People saved up their cash and were more patient and selective about their purchases, leading to the market "slump" and production "slide." Such contrast is an inevitable result of the rectification and improvement process, and it will take time to correct the situation. Meanwhile, there is also a more deep-rooted, fundamental cause to the prolonged "slump" and "slide." It is the poor economic structure. Not only is structural imbalance a major defect of China's economy but the "slump" and "slide" in recent years are found mainly in the processing trades, industries, products, and enterprises where there is excess capacity and which have been engaging in redundant constructions and importing. The unsound structure weakens the economic foundation, slows its reaction to changes, and magnifies the problems. It tends to add fuel to the fire when the economy overheats and add frost to the snow when the economy cools. If we fail to solve the structural problem, we will never get out of the vicious cycle of continuous expansion and contraction, nor will we realize sustained, steady, and smooth development. Solving the structural problem is more difficult than solving the money supply problem, because it involves making proper readjustments of, and necessary compensation for, the profit structure. The problem can only be solved by implementing thorough reform and perfecting the economic mechanisms.

**"Two Issues Concerning the Market Slump," by Ma Jiantang [7456 1696 1016] of the State Council Economic, Technological, and Social Development Research Center Discusses Causes of Market Slump**

### **I. Lack of Investment Demand Is the Main Cause of China's Recent Market Slump**

There must be ample demand if the national economic is to function smoothly, because only then can the goods produced by enterprises be sold directly or indirectly through the business organizations, and only then can enterprises have the money to buy the necessary inputs for reproduction. Excess demand of course will lead to higher prices, and inadequate demand will slow or stop the reproduction process. From the macroeconomic point of view, it is the demand for final products that plays the determining role; the intermediate demands are but derived demands. Thus, the only cause of the market slump, and in turn the decrease in industrial output, is lack of demand for final products. For example, the output value portion of the national income in 1989 came to 1.3 trillion yuan while investment and consumption demand came to only 1.2101 trillion yuan. The demand for finished goods was 89.9 billion yuan short (as reflected in the increased stock). In contrast, investment and consumption demand exceeded the output value portion of the national income by 22 billion yuan in 1988.

From October of last year to April of this year, a concentrated dose of nearly 150 billion yuan in loan funds was put into circulation, but it did not help reverse the market slump and stalled productions. This is due basically to inadequate demand for final products. Because funds were put in the wrong links, they were idled and were not used to increased demand for finished goods. The subsequent lack of demand, weak market, and drop in production should be of no surprise. Out of the demand for finished goods, investment may be worth less than consumption in absolute value, but the former is the motive force behind the fluctuations in the demand for finished goods. For example, the excess demand (+22 billion yuan) in 1988 turned into inadequate demand (-89.9 billion yuan) for finished goods mainly because an 18.5 percent increase in fixed-asset investment in 1988 (+67.3 billion yuan) turned into a 11 percent decrease (-50 billion yuan) in 1989. Consumption demand has a stabilizing effect on the demand for final products. In 1989, demand for finished goods in China saw a three percent increase. It was the result of an increase in consumption demand (8.9 percent) which offset the decrease in investment demand (11 percent). In fact, it was because of the change from increasing investment demand in 1988 to decreasing demand in 1989 which led directly to the decrease in the production and sale of capital goods, especially basic capital goods. For example, the sale of steel dropped 15.1 percent; lumber plummeted 25.8 percent, and cement fell 11.4 percent. Insufficient demand for basic capital goods also leads to inadequate intermediate demand among enterprises that produce capital goods, and through a series of

input-output relationships, the lack of investment demand leads to a generally weak capital goods market. Meanwhile, reduced investment not only leads directly to a decrease in income from construction spending but, through the above-described relay process, also causes the workers to lose income (in absolute or relative terms) as a result of cutbacks in work hours, which in turn leads to a weak consumers' market.

If the above theoretical analysis is valid, we have arrived at an important policy conclusion: The current market slump in China is triggered by the sudden plunge in investment. Lowering the interest rate on savings will do little to increase investment and enliven the market; it could even reduce the source of investment funds.

### **II. The Deep-rooted Cause of China's Weak Consumption Market and Surge in Savings Deposits**

Some people believe that China's weak consumption market is caused by the relatively high interest rate on savings deposits which is drawing much of the personal income to the banks. Therefore, they believe that lowering the interest rate will draw more money back to the commodities market. The truth is that this is a simplistic conclusion. It failed to see the more deep-rooted elements that affect the people's consumption and savings behaviors.

It is my opinion that the main, deep-rooted cause of partial weaknesses in China's consumer market is the decrease in a portion of the urban and rural population's income during the period of economic tightening as well as the intermittent, relative saturation of durable consumer goods in the market, both in the cities and the countryside.

The state's tight-money policy has a serious effect on the income of workers who work in the construction and capital goods-manufacturing industries and some township enterprise employees and individual-owned business proprietors who are facing cutbacks in work hours or shut-downs. Their consumption demand will decrease either in relative or in absolute terms. More importantly, the ownership rate of durable consumer goods has soared in China in recent years. We are approaching the saturation point, and the increase in demand has slowed. In a tight economy, some families will have less money, and their demand for durable consumer goods will decrease, which in turn will cause a sharp decrease in the production of those goods.

Periodic saturation of durable consumer goods weakens the consumer market on the one hand and increases savings on the other hand. Since reform, although every economic stratum has seen some increase in income, the degree of inequity has also increased sharply. In the 1980's, the Gini coefficient was only around 0.25; today, it has risen to 0.35. Relative to the low-income strata, the high-income strata's savings rate is fairly high. Particularly because China has only one type of financial asset and does not have a real estate market, the high-income strata generally put all of their money in the bank.

During the period of rectification and improvement, those whose income has been affected the most are the workers from plants that have closed or have partially shut down. The impact on the high-income group is generally smaller. Thus, if we fail to differentiate the savings rate and consumption behaviors of different income groups, we will not be able to understand the seemingly contradictory situation where a decrease in personal income (taking into consideration the price increase factor, the average real income of urban and rural population fell by 5.2 percent in 1989, and survey in 19 cities showed that their residents shouldered 35.8 per cent of the reduction in real income compared to the total population) is accompanied by an increase in savings deposits (the real purchasing power of the savings deposits in 1989 was 17.3 percent higher than a year ago). Because the single-income workers (especially when the enterprises they work in have closed or partially shut down) are facing a reduction in real income and because there is a relative saturation of durable consumer goods, the phenomenon of reduced income, and in turn the consumer market slump, accompanied by increased savings, is easily understandable. Simply put, the low-income workers have less money to spend, and therefore there is less consumption demand, and the high-income workers basically have all the durable goods they want, and therefore they are saving more.

If the above theoretical analysis is valid, we have arrived at a second policy conclusion: The weak consumer's market is due partly to the loss of income of a portion of the population and partly to the relative saturation of ownership of durable consumer goods. Raising the interest rate on savings will have less effect on the market slump than imagined. To enliven the consumer market, policywise, we should increase production in order to increase income.

In short, it is my opinion that to stimulate demand and start up the market again, we should not lower the nominal interest rate on personal savings; rather, we should stabilize the nominal interest rate, stabilize the financial market, and increase fixed-asset investments moderately, especially investment in technological transformations, so as to increase the demand for finished goods, enliven the market, and promote reasonable growth in industrial productions.

**"Strong Market, Weak Structure," by Yu Zuyao [0060 4371 1031] of the CASS Economics Institute**

Today's economic problems are not the result of the general policy of rectification and improvement but the product of the defects of the current system. Thorough reform has become a necessity in order to achieve the six main goals of comprehensive rectification and improvement and is the only solution to our present problems.

The current system is an obstacle that blocks access to the international market. After China opened to the outside world, if the domestic market is soft, we should increase foreign sales and exports. Many of China's

products already rank first worldwide in terms of sales volume, and the international market indeed has a huge demand. But China's enterprises are substandard, and Chinese products are not very competitive in the world market which is being monopolized by others.

The current system is an obstacle to further opening up the rural market and realizing sustained, steady, and smooth agricultural development. First, because of the imperfect contract system and the lack of legal backing for the property rights in land and the contractual process, the peasants are still not the main investors in agricultural productions. Second, since the implementation of the dual-track pricing system for industrial goods and agriculture-based capital goods, the price scissors between industrial and agricultural products have widened. The peasants have been hurt financially and are losing interest in their work.

The current system is the cause of cost-pushed inflation. Excess demand was the direct cause of runaway inflation a few years ago. Today, excess demand is under control, but the sustained rise in cost has not subsided. First, faced with rising price of raw materials, instead of absorbing the higher cost, enterprises have chosen the shortcut of passing on the cost to the customers and consumers. Second, enterprises have not improved management. They rely on contracting instead of better management, or they wait and ask for handouts as their economic efficiency decline steadily. Third, wage-related expenses are constantly rising, pushing costs up. In short, cost-pushed inflation has become a new element undermining the economy's stability.

The current system is an obstacle to the restructuring of the pricing system. It is a general rule that if the economy is depressed, intense competition will force the producers to lower prices, and the entire pricing system will undergo changes, and it is by this process that the industrial structure is optimized, which in turn brings economic recovery. China's seriously distorted pricing system should be and can be changed now, and yet it is not being changed, nor dare we change it. But without changing the pricing system, it will be impossible to optimize the industrial and enterprise structures, increase effective supply, and solve our economic problems.

The interest structure created by the policy-mandated devolution of power and yielding of profit and by the system of comprehensive contracting has become an obstacle to structural readjustment and optimal allocation of resources. Today, some commodities are experiencing sales slump, but the market basically is still one of shortages; demand still exceeds supply. The solution to this problem lies in curbing demand, optimizing the structure, and increasing supply. But widespread contracting has blocked this road to recovery. First, the enterprise contract system has severed the ties between enterprises and the market. The kind of one-on-one bargaining and the eagerness to take responsibility for



the profits but not the losses have prevented the formation of a fair, competitive market. At a time when we urgently need enterprises to be energetic and invigorated in order to survive and grow amid the competition, the market is unusually quiet. All eyes are on the government. Even the superior enterprises are not taking the opportunity to merge and expand. Second, the financial contracts and business and industrial contracts have created a "warlord economy" which is obstructing the proper flow of resources and preventing us from optimizing the structure by taking the short cut of readjusting the stock of assets; instead we must readjust the flow of incremental assets. This is why today, the scope of basic construction projects in progress is still growing, but renovation and transformation projects find it difficult to get off the ground; nonessential and redundant constructions and importing are increasing despite repeated warning, but rectification and improvement is making little progress.

In short, only by deepening the reform can we escape the present predicament and achieve our rectification and improvements goals.

In the rectification and improvement process, we should learn to improve our skill in navigating the market. The law of value is a great school, and the market is this school's main course. There is no weak market; there is only inept system. The socialist economy is a planned commodity economy. The commodity economy is a system where only the superior can win and the inferior are eliminated and where profit and risks go hand in hand. The market is definitely not a greenhouse; it is a stormy sea. It is where all systems, decisions, and production managers are tested to see if they are worth keeping. "Market constraints" are the most basic constraints that none can defy. But the market is also very fair. If we get to know the market characteristics, respect the market order, and learn to navigate the market, it will bring us nothing but benefits.

**"Assessment of China's Current Macroeconomic Situation," by Qin Hui [4440 3189] of the State Information Center**

China's current economic situation can be looked at from the following aspects: (1) The supply-demand gap: It is estimated that China had a supply-demand gap of more than 40 billion yuan in 1989. It is my opinion that this does not begin to tell the whole story about the inadequate demand. This round of economic tightening can be divided into two phases. The first dated from September 1988 to September 1989. The tightening targeted the intermediate products. This phase was characterized by the tightening of the credit mechanisms, and as a result, the rate of decrease in total supply either exceeded or equaled the rate of decrease in total demand, and fixed-asset investments and retail sales also fell to record low levels. The second phase began in October 1989 and lasted until April 1990. The tight policy began to focus on the demand for finished goods, but because of poor economic efficiency and low labor productivity

and because of the market slump and other problems, the decrease in total supply was almost keeping exact pace with the decrease in total demand. Thus, at the end of last year, total retail sale increased only 8.9 percent and industrial productions increased 6.8 percent; meanwhile we had as much as 700 billion yuan in excess purchasing power. Back then, we blamed everything on inadequate demand, and we ended up being trapped by inflation. (2) Fixed-asset investments: Between January and November 1988, completed investment in fixed assets in the ownership by the whole people system was worth 152.8 billion yuan, 10.8 percent less than in the same period a year ago. Because of reduced investment credit, investment in fixed assets saw considerable cut-back, but the investment structure was still distorted. Increase in agricultural investment was slow and the reduction in fixed-asset investment was concentrated in the people-owned units. Smaller investment scope has a visible effect on investment demand and will undermine the potential for increasing supply in the long-run. Although investment capability has increased by 40 billion yuan this year, all investments should be subject to close scrutiny. Preference should be given to investments in renovation and transformation projects. (3) Retail sale of consumer products: Last August, total retail sale of society's commodities fell to a record low, which led directly to the market slump. It was the opportune time to readjust the product-mix and tap supply potential. But because we over-tightened the economy, we missed the perfect opportunity. At the end of last year, market purchases and sales were slow, generating only 810.1 billion yuan while product overstock reached 350.5 billion yuan, an increase of 17.1 percent, and the market slump lingers on today. (4) The consumer price index: Since August 1989, the consumer price index has been falling steadily. But the price decrease may be due mainly to enterprises' eagerness to get rid of their goods, their willingness to make a smaller profit in order to make sales, and because the sales are subsidized. Thus, it is wrong to assume that the price increase problem is under control. (5) The money supply: One distinct characteristic of this round of economic contraction is that interest rate policy has been assigned the important task of regulating the money supply, and it indeed has played an important role in curbing the increase in money supply. In 1989, China added a net of 20.999 billion yuan in currency to create a total money supply of 234.402 billion yuan. In the first quarter of this year, nearly 20 billion yuan was withdrawn from circulation, but mostly in the form of credit. Actually, it is the withdrawal of commodities from circulation that plays the important role in China's currency withdrawal process. We should also consider the issue of forced-savings in China. Currently, the market has as much as 700 billion yuan in surplus purchasing power. Inflation-proof savings account for around 79 percent of the banks' new deposits. This phenomenon should not be ignored. (6) Fiscal revenue and expenditure: In 1989, China had a budget deficit of around 11.8 billion yuan (by narrow calibration). In so far as the state's budget plan is concerned, only around

82 percent of the budgeted income was realized and 84 percent of the budgeted expenditure was completed (cumulative January-November figures). The revenue and expenditure structures created by a decade of reform have not changed despite the severe contraction, and both the central government's and local governments' budget deficit structures remain just as unreasonable. This year, if we hope to improve the financial situation, we must once again rely on revising our debt-financed revenues and expenditures. The financial situation leaves no room for optimism. (7) Foreign trade and foreign exchange: Last year, foreign exchange income generated by recurrent foreign trade increased 6.5 percent, spot exchange income increased 1.4 percent, and spot exchange expenditure fell 3.5 percent. In the first quarter of this year, recurrent trade generated 14.4 percent more foreign exchange than the same period last year, and foreign exchange expenditure on imports fell 26.7 percent; spot exchange income increased 7.2 percent. But if we consider the fact that China will be entering a peak debt-payment period, and in view of the international economic shakeup, we should be cautious about our current foreign trade activities.

From the above conclusions, it is my opinion that we should not be overly optimistic about China's current economic situation. While we applaud the success of rectification and improvement at this stage, we should also realize that partial changes in the situation may not reflect the total effect of rectification and improvement; on the contrary, it may suggest an economic reality contrary to our subjective intent.

**"Efforts To Restart the Economy Should Focus on the Market," by Zheng Xinli [6774 2450 4539] of the State Information Center**

After one year and five months' hard work, the double tight policy which began early last year has produced results. With regard to the six goals of rectification and improvement proposed by the Party Central Committee and the State Council, we have achieved undisputed success in at least three: the price index has come down; excess issuance of currency has been curbed; grain production has soared after stalling for four years. The market and the economy have stabilized, and the people are less worried. But the double tight policy has also brought some negative effects, especially in view of the market slump and the tight supply of enterprise funds which began late last year. In September, industrial output showed negative growth. In the fourth quarter, we began to pour massive loan funds into the large- and medium-sized state-run enterprises, and so far this year we have increased current fund loans to enterprises. But because we have not dealt successfully with the market slump, the already huge stockpile of finished goods continued to mount. Much of the increased current fund loans to enterprises have been turned into idled commodity funds, further lowering economic efficiency and exacerbating the budget problem. It is my opinion that besides realizing that after a part of the economy stalled

or slowed down, much more current funds are needed to get the economy started again than normally needed to sustain its operation and that there is always a time lag between the input of credit loan funds and the effect it generates, the important thing is to know where to expend our effort to get the economy moving again. We are not grasping the essence of the market when we put the emphasis on the production enterprises first and shift our focus to the commercial enterprises next. If market sales are enlivened, the problem of stockpiling of finished goods can be solved, the shortage of enterprise funds can be remedied, and the budget problem will solve itself.

To start up the market again, we must stimulate market purchases and sustain a steady increase in retail sales while still keeping it more or less a buyer's market. To this end, the double tight policy not only should focus on preventing and curtailing inflated demand, but more importantly, it should pay close attention to the proportion between real demand and potential demand and put the emphasis on controlling real demand. Many factors influence real demand. Besides the amount of potential demand, the product-mix, the stock of goods people have on hand, the tendency for consumption to keep up with income, as well as the price level, social psychology is an even important factor. This includes the people's expectation of lower prices, of their own income, and especially their anxieties. To cure the market slump, besides lowering the interest rate and increasing certain loans and investments, it is even more important that we do a good propaganda job in explaining the economic situation to the people, allay their anxiety, urge them to work with the government in order to weather this rectification and improvement period successfully.

To restart the market properly, we must understand the way the market changes, especially the law of change in the price structure. China's retail sales figure is made up of 88 percent consumer goods, 71 percent of which make up food and clothing. When the people make more money, they want to eat better, dress better, and live better. The increase in this type of consumption is necessarily constrained by the supply of agricultural and sideline products. Thus, as the living standard rises, it is inevitable that the price of agricultural and sideline products and goods processed from those products will rise. Meanwhile, the cost of industrial consumer goods will decrease as output increases, and prices also will fall. This too is an inevitable trend. If, in order to achieve our goal of stabilizing agricultural and sideline product prices, we should curtail the increase in purchasing power, we will limit the growth rate of the industrial consumer goods market.

China's savings rate is fairly low, generally below 10 percent, and even at its highest, in 1989, it only reached 13.2 percent, as compared to Japan's consistent rate of over 20 percent. Put in international context, China's existing 500 billion-plus yuan in savings is not a large sum; it amounts to one-third of the GNP; Japan's



savings exceed its annual GNP. By regulating the people's savings, we can achieve the goal of regulating the proportion between real and potential demands. Currently, we have few means of financial regulation. We need more securities markets of different kinds.

The readjustment of the industrial structure and the product-mix is making very slow progress. The culprit is the profit rate which is determined by prices. If we fail to readjust the pricing structure, we will not be able to achieve all of our rectification and improvement goals. Today's market slump has provided the perfect opportunity for readjusting the pricing structure. We should implement reform to smooth out the market relationships, end our present predicament, and lay a sound foundation for revitalizing the economy in the 1990's.

### Journal on Reform of Urban Land System

HK3110043190 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 8, 20 Aug 90 pp 39-45

[Article by Li Wen (2621 2429) of ZHONGGUO SHEHUI KEXUE and Yang Jirui (2799 4949 3843) of the Sichuan University Economics Department; edited by Zeng Ming (2582 0682): "Theoretical Reflections on Reform of the Urban Land System"]

### [Text]1. The Inevitability of Innovation in the Urban Land System and Some Basic Concepts

As a result of the uncompensated use and mandatory allocation of urban land over the years, property rights of urban land have registered nil, even negative, returns. As the socialist planned commodity economy generates a series of economic conditions and economic mechanisms, innovation in the urban land system is becoming an increasingly more important order of the day.

1. Urban land is the most fundamental material condition for all urban socioeconomic activities. The most outstanding characteristics of this material condition are its nonrenewability and finiteness. Thus, urban land is a particularly valuable, limited, and irreplaceable rare resource. In China, which is a big country with a large population but little land, the contradiction between people and land has always been very acute. As the rural areas become more and more urbanized, the tendency toward urbanization is also seen in land development. This further stimulates the demand for urban land. With no charges for the use of urban land, the demand for urban land will certainly be exceedingly great. Thus, the limited supply of our urban land, which is subject to the rigidity of population and grain production growth, is bound to clash violently with the abnormal demand for urban land.

The contradiction between the low elasticity in supply of, and the inflationary demand for, urban land compels us to rely on the system of administrative management, the imposition of legal restrictions, and the inducement of economic interests to strengthen, through internal drive and external pressure, the rational utilization and

effective protection of urban land. The establishment of a new system for the compensated use and commercialized management of urban land, and to generate land revenues constitutes an interest incentive and regulation mechanism for the protection and utilization of urban land resources.

2. The location of urban land is fixed and immovable. This characteristic means that it is invariably tied to given natural conditions (terrain, topography, ecological environment, and so on) and economic conditions (productivity level, quantity and quality of labor, distance from market, transport facilities, related industries tied to land, and so on). The natural and economic conditions between different cities or different parts of the same city may differ in thousands of ways. The resultant disparity in the location of urban land suggests that superior area locations have greater productivity. This means that transaction costs can be reduced, thereby giving the user greater benefits. However, since we have always adhered to the practice of uncompensated use of urban land, there exists the irrational phenomenon whereby all industries and socioeconomic activities tend to converge in the city center, becoming entrenched in the downtown areas. Cases of land waste, such as making poor use of good land, occupying more land than required, taking possession of land earlier than necessary, and not making use of occupied land, are too numerous to enumerate.

Thus, the state should levy differential land rent on units and individuals who occupy and use urban land at and above the level of inferior area locations. In individual cases, high monopoly land rent should be levied. Under the two-way effect of interest incentive and constraint, certain industries and socioeconomic activities which produce good location benefits and can afford high land rent will converge in the more superior urban locations; while those industries and socioeconomic activities which occupy downtown areas but do not produce good or even satisfactory location benefits, and consequently cannot afford high land rent, will be forced to move out of their superior locations and make way for industries capable of producing good location benefits. This guiding mechanism for the selection and realignment of urban industrial locations, which has the charging of appropriate land rent as its basis, is in keeping with the land-use principle of "turning land to best account." It is conducive to fair competition, the optimum allocation of urban land resources, and the realization of urban land use based on economic considerations, so that all socioeconomic activities will have their own place in their respective area locations. It is also conducive to the rationalization of urban layout and the scientific management of cities.

3. Innovation in the urban land system is also an important link in improving the socialist market system and deepening reforms. The improvement of the socialist market system objectively requires that a subsystem, including the urban property market, be established and perfected. The economic structural reform, as

a systems engineering project, also cannot do without the support and coordination of different quarters, the urban land system included.

The system of uncompensated use and noncommodity allocation of urban land in China has produced the following problems: 1) The fact that superprofits produced by urban land—a production factor which does not have to enter the economic process of enterprises—can flow back into the hands of the users means that urban land users are de facto "land owners." This accounts for the coexistence of land shortages and land waste in Chinese cities. 2) The ossified urban land system has given rise to land profiteering in disguised forms. This explains the de facto existence of a distorted, unofficial, and illegal property market in China. This black market can be very harmful because it lacks a fair form of exchange, does not have a proper place of circulation, and is subject neither to the rule of legal provisions nor to administrative management. 3) The nonprofitmaking, or even subsidized, urban land use and allocation system accounts for the "absence" of a land earnings distribution and investment system in the urban land system. Under conditions of strained urban financial resources, urban governments often find themselves in a dilemma when trying to balance arrangements for urban production and livelihood against the development of the basic infrastructure. The shortage of funds for the construction of basic infrastructure projects means that urban areas cannot offer a complete range of social functions and therefore cannot develop their potential to the full.

If we say that this urban wealth was buried by the practice of the product economy in the past, we should say that the practice of the planned commodity economy, and the deepening of the economic structural reform, are the precise means for tapping this wealth so that it can be serve urban construction and socialist modernization. Thus, the innovation of the urban land system is a pressing and imperative task. The innovation of the urban land system covers three levels: First, the establishment of a system for the compensated use of urban land; second, the establishment of a system for the commercialized circulation of urban land; and third, the establishment of an urban land earnings distribution and investment system. The establishment of a system for the compensated use of urban land is the basic link in this innovation and is the premise for establish a system for the commercialized circulation of urban land. The establishment of systems for the compensated use and commercialized circulation of urban land is the necessary condition for the establishment of an urban land earnings distribution and investment system. The establishment of this urban land earnings distribution and investment system in turn will improve and strengthen systems for the compensated use and commercialized circulation of urban land. It can thus be seen that the three levels of the innovation of the urban land system can condition and promote one another. They form a self-contained project for the innovation of the urban land system.

## II. Land Use Charge: The Cornerstone of the System for the Compensated Use of Urban Landed Property

The system for the compensated use of urban land means that users of urban landed property must pay land use charges to owners of urban landed property.

The use value of urban land as a natural resource is characterized by its nonrenewability, finiteness, and fixedness. But it is only a property, not a commodity. Under the conditions of the commodity economy, however, once urban land comes into the possession of an owner, it may become an object of exchange and bring "commercialized" benefits to its owner. Due to the "radiation energy" of the laws of the commodity economy, the use value of land, which does not in fact have commodity content, acquires its "commodity form," or is "commercialized."

In the primary stage of socialism, conditions for the "commercialization" of urban land are also present. Moreover, the dual nature of the public ownership of land, the disparity of urban land, the objectivity of the separation of urban land ownership and the right of land management, the competitiveness in demands for urban land, the planned commodity economy and other economic factors have determined the objective inevitability of urban land rent.<sup>1</sup> In the worst area locations there is only absolute rent but, in the better area locations, nonuniform differential land rents also exist. In the "golden" sections of town centers or secondary centers one finds not only absolute and differential land rents, but also monopoly rent.

It must be pointed out that urban blocks are not natural land. The reason is that, in reality, urban blocks, both above and below ground, carry the previous labor of mankind. The land capital invested in basic infrastructure development is a case in point. Hence, urban blocks are in fact land developed through the continuous investment of labor. In other words, they are urban landed property. Urban landed property refers to organic entities of fixed assets formed by physical land and capital investment. Since urban landed property represents the integration of physical land and capital investment, full payment for the use of urban landed property should refer to land use charges, including land rent, depreciation of capital investment and interests, and not just land rent alone. Urban land rent and land use charges cannot be put on a par: 1) in terms of value makeup, land rent is surplus product value with an above-average profit, while land use charges comprise surplus product value with an above-average profit, a depreciation charge that makes up part of the product cost, and interest with an average profit; 2) land use charges are bound to exceed land rent as they also include depreciation charge and interest; and 3) land rent generally goes to the land owner and will not be further divided between nonowners. If the land owner and the investor do not happen to be the same person, land use charges will be further divided into land rent for the land owner, depreciation charges

on the capital invested by the investor, and earnings or interest on the capital investment.

Theoretical definitions should be established for the different connotations and quantitative determinations of land rent and land use charges. This will be of great practical significance to the economically effective development, utilization, and management of urban landed property. If users of urban landed property only pay land rent, and are not required to pay depreciation charges and interest to the investors for their capital investment, the value of land capital ownership cannot be realized. The resultant one-way flow of massive funds invested in urban land will cause investors to lose interest in land development. This will in turn pose new obstacles to the development and renovation of urban land.

Before collecting land use charges from users of urban landed property, reasonable tariff standards should first be fixed. In practice, urban land-use charges are collected on the basis of the appropriate per-unit annual charge, which is fixed through the graded evaluation of property, as well as the total area used. In this connection, the graded evaluation of urban landed property is one of the key links in determining reasonable tariff standards.

The principal indicator used in the graded evaluation of urban landed property is the area location. Area location is the concrete expression of the organic integration of natural geographical position, economic geographical position, and transport geographical position in the space and area of a city. The interrelations between area locations and economic returns on urban landed property are enormous. Different area locations generate different productivity and yield nonuniform quantities of earnings to the users. The superiority or inferiority of area locations is a very important parameter which can affect the magnitude of urban land rent. When the area locations in question are in different belts, the disparity in economic returns will be very conspicuous. Even for the same trade within the same city, a superior area location will also yield much higher economic returns than an inferior area location. Moreover, the returns of two practically adjacent blocks in the busiest section of the same city can also be very different. Hence, urban landed property should be evaluated in a graded manner with differences in area locations as the principal criterion, and per-unit annual charges should be fixed for different categories and grades. Before the formation of a property market, the following measures may be adopted to implement the system of the compensated use of urban landed property: 1) Due to differences in overall location, different standards should be adopted for the use of landed property in different cities. However, the grading of cities in terms of property value, the standards of land use charges, and the scope of fluctuation allowed, should be determined by relevant departments of the central or provincial (autonomous regional) government in order to avoid excessively large disparities. The specific standards should be fixed by the respective city

governments themselves on this basis. 2) Landed property in the same city may be divided into different categories, each covering a number of grades, and different tariff standards should be fixed for different categories or grades. We must first fix the relevant land use charges for the best area locations (absolute land rent, differential land rent, and monopoly land rent may be fixed at the same time) as well as the worst area locations (absolute land rent only). Land use charges for other categories and grades should then be fixed by means of "optimization." 3) In principle, all urban landed property users should pay land use charges to urban property lessors. However, the state could adopt different tariff standards, such as minimum charges, preferential charges, ordinary charges, and maximum charges, in the light of property usage, the nature of the trade, the user's socioeconomic endurance, and so on.<sup>2</sup> 4) Since area location is subject to the effects of socioeconomic development and is dynamic in nature, the categories and grades of urban landed property should be evaluated periodically. In this way tariff standards can be adjusted from time to time. Meanwhile, a certain amount of elasticity should be allowed for tariff standards in anticipation of price fluctuations in the future property market. 5) In order to encourage urban property developers and users to invest in undeveloped sections, such as slopes, swampy areas, and environmentally polluted sections, city governments may offer land use rights while retaining state ownership and waive land use charges for a fairly extended period. 6) Regarding charges for the use of landed property by foreign concerns, a separate set of tariff standards should be fixed in accordance with international property market prices and the parameters of preferential policies. Efforts must be made to guard against pricing foreign concerns out of the market and "benefiting others at our own expense" through waging internal price wars.

### III. Diversified Property Market: The Operating Mechanism of the Commercialized Circulation of Landed Property System

In order to establish a system for the commercialized circulation of urban landed property and manage urban landed properties as commodities, it is necessary to establish and perfect a legal and diversified property market system.

Aside from the state purchase of collectively owned land in the rural areas according to law, under the socialist planned commodity economy only parts of the functions and powers of urban landed property rights, such as the right of possession, the right of use and mortgaged right of use, rather than property rights as a whole, can enter into circulation in the property market.

1) The state purchase property market. When urban development so requires, the state may requisition collectively owned land in the rural areas according to law. However, such requisitions must be duly compensated. Compensation for the requisition of land is in fact the



"price" of the land sold. Based on the following considerations we advocate the opening of a state purchase property market. First, the state purchase of collectively-owned land in the rural areas represents a one-time compensated transfer of property rights. It meets the criteria of land sales and embodies the commodity exchange relations. Second, the compulsory measures adopted in the state purchase of land are basically in conformity with the laws of value and resemble the state purchase of certain commodities at mandatory prices. Third, the compulsory nature of the state purchase of land is combined with the principle of equality in economic activities. If this is not the case, the implication is that the state has the right to arbitrarily transfer collectively-owned assets. Fourth, the fact that collectively-owned land may be leased and contracted out at a price within legal limits has in fact established a reference point for the "selling price" in the one-time transfer of property rights. If the state requisition of land is not sufficiently compensated, it will be difficult to realize the objectives of the requisition even with the backing of compulsory measures. Lastly, the view that land requisition cannot be equated with the buying of land because compensation for the requisition of land is not the "selling price" of land, has already sharply clashed with practice. For instance, in suburban Chengdu, the average fee paid for the requisition of land is scores of tens of thousand yuan per mu, the highest fee is over 200,000 yuan per mu. This is no longer compensation on the general level but is equivalent to a "selling price" at a fairly high level.

2) The wholesale leasing property market. In order to effectively realize urban property rights in economic terms, the state may authorize units concerned to alienate parts of the functions and powers of state-owned landed property (mainly the right of management or right of use) to the alienee for a fixed term according to legal provisions or agreed conditions. Landed property entering the wholesale leasing market is in large batches with long tenancy terms.

3) The development leasing property market. Property development and operation companies will develop and process, in various ways, the property obtained from the wholesale leasing market according to the requirements of individual enterprises or individuals. For instance, they can carry out basic infrastructure development on their leased property and then lease out the "developed" land to other land users in terms of space or duration of use.

4) The mixed real estate market. This enables enterprises or individuals to sub-lease remainders of leaseholds when selling or leasing out the superstructure.

5) The land use rights mortgage market. This enables property development and operation companies and other land users to use remainders of leaseholds on land use rights as security for loans or other economic contracts.

6) The land use rights exchange market. In order to acquire landed property that is more in keeping with their utilization and paying ability, land users may exchange the landed property being used during a lease term. In the case of exchange involving property of different categories, grades, or lease terms, the difference should be made good in the form of compensation.

There are essential differences between the socialist property market and the capitalist property market. The socialist property market is characterized by state monopoly, restricted property rights, macroeconomic regulation and control, limited competition, and so on. 1) The state purchase property market is characterized by state monopoly, state planning, and the one-way movement of property rights. Only statutory organs entrusted by the state can partake in market activities as buyers and land purchases must be authorized by the state departments concerned. Land property rights can only be transferred from the hands of the collective to the state and buyers and sellers cannot change places. Furthermore, land purchase prices are subject to the mandatory regulation and control of the state.

2) The lessors in the wholesale leasing property market are under the exclusive control of statutory bodies (such as state trust property companies) authorized by the state, while the lessees are independent economic entities of property development and operation companies or real estate enterprises. This practice can help bring about the marriage of monopoly and competition and expedite development of urban real estate into an independent economic sector. 3) The development leasing property market and mixed real estate market have diversified economic sectors and operators as their subjects and state-owned enterprises constitute the leading factor. Land use rights, as the objects, can move not only vertically but also horizontally, to regulate supplies. Besides reflecting the supply-demand situation in the property market, this practice is also conducive to effective utilization of land resources and can help reduce the amount of urban land lying idle or wasted. 4) The land use rights mortgage and exchange markets are auxiliary markets derived from the basis of state purchase, wholesale leasing, development leasing, and mixed property markets. These auxiliary markets can promote the circulation of landed property, reduce the accumulation and sinking in of landed property, and help enhance the economic endurance of property operators and users.

In reality, in the diversified socialist urban property market, the basic forms are state purchase and leasing. Other forms are all derivative and auxiliary in nature. This being the case, there are two basic forms of pricing in the property market, namely, purchase price and leasing price.

The theoretical purchase price of property should have the Marxist land pricing theory as its basis, plus capital invested in the land and minus installation allowance for the peasants.

Given:  $P$  = property purchase price,  $R$  = average annual land rent (or the weighted average of total land rent in the previous three years),  $r$  = interests on bank deposits;  $I$  = capital invested in land and profits thereon,  $G$  = allowance for the installation in nonagricultural enterprises of peasants whose land was requisitioned.

$$P = \frac{R}{r} + I + G$$

Property leasing involves selling the rights of use and management of property for a limited term. Its theoretical price is computed as follows:

Given:  $P$  = price for the wholesale leasing of property;  $P'$  = price for the sub-leasing of property;  $R$  = average annual land rent (or the weighted average of total land rent in the previous three years);  $n$  = the term of alienation of land-use rights;  $(I)$  = total of depreciation charges and interests on capital invested in the land during the lease term;  $\Delta I$  = additional investment in the land by the original user during the used term.  $\Delta(I)$  = total of depreciation charges and interests on additional investment during the sub-leasing term,  $n_1$  = used term of the lease.<sup>3</sup>

$$P = \frac{R}{r} \cdot \left(1 + \frac{1}{(1+r)^n}\right) + 1 \text{ (or } (I))$$

$$P' = P - \left(\frac{P}{n} \times n_1\right) + \Delta(I) \text{ (or } \Delta(I))$$

From these formulae, we can see that when  $n$  approaches infinity, that is, when the lease term is infinite, the property is as good as sold. Hence we say that  $(I)$  approaches  $P$ . This shows that these two formulae are no more than the extension of the formula for computing the selling price of property. It also reveals the internal link between property sales and leasing. The mortgage and exchange of land use rights also have property rentals, as represented by property leasing price, as the basis of calculating charges. Meanwhile, property rental can also be taken as the cumulative land use charges over a given period and can be converted into appropriate land use charges.

On the basis of the abovementioned theoretical prices and tariff standards, and taking state regulation and control, planning, land use policy, and supply and demand relations into consideration, various actual price forms and tariff standards can be worked out. Thus, the latter may fluctuate along the lines of the former. The state, for its part, can make rational use of the gap between the two to regulate and control various price forms and tariff standards in the property market.

#### IV. Separation of Charges and Taxes With Due Attention Being Paid to Earnings: The Basic Framework of the Urban Landed Property Earnings and Investment System

The urban property earnings distribution and investment system has a vital bearing on the standardization and institutionalization of the pooling and usage of property-related funds and concerns the material interests of various related aspects of the urban land system. It is also an important link in straightening out relations in urban property rights, reducing circulating costs, and regulating economic activities.

1. The collection of land use charges or property rentals should be realized through contractual arrangements. The leasing of landed property is a contractual act which embodies the relations of equality, voluntary participation, and mutual benefit between the lessor and the lessee.<sup>4</sup> Thus, the state should not levy charges on the property user or lessee in its capacity as state power. Rather, it should realize its property earnings in its capacity as the representative of property rights by following the property rights partial alienation sequence. In other words, the state may entrust statutory bodies to directly collect property rentals or land use charges from various property development and operation companies or direct lessees of state-owned property. As lessors in subleasing activities, the property development and operation companies in turn collect property rentals or land use charges from their lessees. When Enterprise A transfers the remainder of a leasehold to Enterprise B, Enterprise A can directly collect rentals or charges from Enterprise B.

The collection of rentals or land use charges is in conformity with the principle of the separation of government and enterprise functions in that it clearly differentiates between the role of the state, as the incarnation of state power, and its capacity as the owner of urban property rights. The stratified collection of rentals or charges can not only help increase the responsibility of competent departments in the management of urban landed property, but can also help encourage operators at various levels to engage in property investment and renovation for the purpose of realizing investment returns. If financial and tax departments directly levy land use charges on the large numbers of land use units, the following problems will arise. First, the forms of realization of state power and state property rights in economic terms will be confused; second, the mechanism for commercialized circulation of landed property cannot take shape; and third, since this will greatly increase the work load of financial and tax departments, problems in the levying and management of land use charges will be inevitable.

2. The correct establishment of the tax-paying subject. The levying of property tax as a method realizing state

power in economic terms should not, as a rule, be levied on the property lessee. Mara pointed out: "According to regulations, land tax should only be borne by the land owners and not by the lessees or tenants."<sup>4</sup> The state can only levy property tax on statutory bodies that represent property ownership. The levying of property tax on representative bodies of property rights by state financial and tax departments in the name of state power is a necessary link in righting the relationship between the internal political and property powers of the state. Representative bodies of property rights take part in property market activities as monopoly economic persons. They mainly rely on the economic functions vested by the state to regulate and control the market. This will no doubt be of help to the proper macroeconomic management and microeconomic enlivening of the property market.

In addition to paying rentals to the lessors, property development and operation companies should also be required to pay landed property turnover tax (or landed property value added tax) according to regulations in the subleasing or sales of landed property. Like all other enterprises, they should also be required to pay income tax on income derived from property business.

Other property users who do not have landed property as their direct business objectives should not be required to pay further charges relating to the use of property in addition to the payment of rentals or land-use charges. However, when they sub-lease the landed property with compensation, they should be required to pay property transfer tax, that is, stamp duty, in accordance with existing tax laws.

3. In levying land use charges, the interests of the investors should be respected. As noted in the preceding sections, land use charges comprise land rent, asset depreciation charges, and interest. Under the circumstances, should depreciation charges and interest be handed over to the land owner, namely, the state, along with land rent? No.

If, during lease term I (Roman I), a piece of landed property (or simply a piece of land) is leased out to B by the owner's property right representative A and if, during lease term II (Roman two), the said piece of land or property is taken back by A and leased out to C, at least two situations may arise during lease term I: 1) If A has poured new investment into the land, then A will be entitled to include asset depreciation charges and interests derived from this investment into land-use charges along with the land rent. 2) If B has poured in new investment, then asset depreciation charges and interest derived from this investment will not be included in the land use charges and will, instead, go directly into B's pocket. This means that land use charges will only include land rent (if no previous investors are involved).

During lease term II, asset depreciation charges and interests in situation 1) will be converted into differential land rent and will continue to be kept by A. In

situation 2), however, things are not to be dealt with in the same way as under conditions of private land ownership. In this case, asset depreciation charges and interest should not be converted into a special component part of differential land rent. Mara said that in fact this "did not constitute true land rent."<sup>5</sup> Western scholars referred to this as "quasi rent."<sup>6</sup> Although, along with land rent, they constitute the land use charges payable by C, only land rent (perhaps also asset depreciation charges and interest derived from investment poured in by A) will really be handed over to A. Surplus asset depreciation charges and interest derived from investment poured in by B during lease term I should still go to B until this part of the asset is completely depreciated (and no more interest generated). This can effectively prevent the situation where lessees "avoid becoming party to all improvements and expenditures which they cannot expect to recover in full during their lease terms."<sup>7</sup> It will also eliminate all predatory short-term activities, minimize conflicts over lease terms, and ensure the healthy development of urban landed property.

Of course, in situation 2), the state is entitled to levy property income tax on B during both lease terms I and II. If property transfer occurs, stamp duty will also be levied.

4. Take into consideration the interests of all concerned in establishing an investment mechanism which "makes land serve urban development." Based on the principle of earnings distribution under the state ownership of land, property rentals or land use charges collected by relevant state property-rights representative bodies should be kept and disposed of by the state. However, since central, provincial, and city governments have all contributed varying shares in terms of manpower and financial and material resources in existing land assets, the after-tax income thus collected should be distributed and used in proportion to the shares contributed by the central, provincial, and city governments. As city governments have the biggest say in urban construction, they should get the largest share in accordance with the principle of causing financial power and management authority to match. As a steady source of income for urban construction funds, such allocations should be spent on authorized purposes only. Through the establishment of this investment mechanism which "makes land serve urban development," changes can be made in the backwardness of the urban basic infrastructure.

Taxation directly related to urban landed property should, in accordance with the reform concept of separate taxation, be regarded as being of a fixed tax type providing a steady source of city revenue. A given proportion of this tax revenue should also be earmarked for the urban construction fund.



### Footnotes

1. Yang Jirui: "Theoretical Thoughts on the Development of the Urban Real Estate Business," ZHONGGUO SHEHUI KEXUE, No. 2, 1990.
2. Socioeconomic endurance refers here to the socially necessary endurance of property users for different categories of landed property, not the actual endurance of individual property users.
3. If the invested part is sold, it is represented by  $I$  or  $\Delta I$ ; if the invested part is leased, it is represented by  $I$  or  $\Delta I$ .
4. In a property leasing relationship, the "person" refers to both the juridical person and the natural person.
5. Marx and Engels: Book Review Published in Issue No. 4 of NEW RHINE: POLITICAL and ECONOMIC COMMENTARIES, and *Collected Works of Marx and Engels*, Volume 7, p. 331.
6. Marx: *Das Kapital*, Volume 3, People's Publishing House, 1975, p. 698.
7. Alfred Marshall: *Principles of Economics*, 8th edition, 1938, Macmillan & Co., London.
8. Marx: *Das Kapital*, Volume 3, p. 700.

### Contracted Management System Viewed

HK2911063090 Beijing JINGJI GUANLI in Chinese  
No 10, 5 Oct 90 pp 44-48

[Article by Hai Penfei (2057 7720 7378) edited by Tong Zetian (0157 3419 3944): "On perfection of the Contracted Management System"]

[Text] Ever since the birth of the enterprise contracting system, people have been impressed by, and acknowledged, its special features of having clear interest relations, a high degree of transparency in policy, simplicity and adaptability in form, and a strong and stiff character in aiming at objectives. Hence, it has developed rapidly. Actual practice in the past few years has shown that enforcing the contracting system is an effective measure in the present stage in arousing the enthusiasm of the entrepreneurs and workers and enhancing the enterprises' economic benefits. Naturally, it should also be seen that the enterprise contracting system was advocated under the enlightenment of the rural household contracting system and was intended, to a large extent, as a supplementary or repair program for the functions of the system of shifting from delivery of profits to payment of taxes. It was in fact a form of transition in the course of conducting the standardized reform of the enterprises. Because of the limited nature of the contracting system itself, and the noncoordinating nature of the relevant reform measures, the problems which have been revealed in actual practice are obvious and can be easily seen. We must earnestly analyze the strong and weak points, suggest measures to remove the disadvantages

and retain the advantages, and bring about continuous perfection and development.

### 1. The Problems

In enforcing the enterprise contracted management responsibility system, the principal problems are as follows:

1. The pattern of profits distribution slants to one side. Current enterprise contracting takes as the contracted base figure the combination of income tax and after-tax profits. By so doing, the receipts from the income tax of state finance are contracted to the extent of being fixed, rendering state receipts from income tax unable to grow following the increase in enterprise profits. As a result, the phenomena exists whereby production is developed, the enterprises are invigorated, but the state's receipts decrease yearly. The large-scale decrease in the ratio of delivered profits from the gross amount of profits leads to an abnormal change in the pattern of profit distribution relations between the state and the enterprise. If such a pattern continues, the power in macroeconomic adjustment and control of state finance will inevitably be weakened. One viewpoint holds that although the profits delivered by the contracting enterprise to the state are reduced, the circulation tax and the energy and communications sinking funds delivered by the enterprise are increased and hence, in these years, the gross state receipts have not decreased. In the author's opinion, the circulation tax is a constituent portion of the products price. In name, it is paid out by the enterprise, but in fact it is borne by the consumer and its function is to regulate production and consumption and does not directly reflect the economic effects of the enterprise. At the same time, the state has not stipulated that the circulation tax also be contracted. As for the energy and communications sinking fund, it exists before the enterprise's contracted and does not appear after the contracting. Besides, the contracting enterprise must deliver it, a noncontracting enterprise must also deliver it, and an ordinary enterprise and any business unit must, likewise, deliver it. It can thus be seen that it is not right to include the energy and communications funds in the computation of the economic effects of the contracting enterprise. Concretely speaking, the basic yardstick for measuring the distribution relations between the state and the enterprise should be the ratio between the state's income and the enterprise's profit retention and the circulation tax and energy and communications sinking fund should not be included therein.

2. The phenomenon of the contracting enterprise contracting gains and not losses generally exists. The basic principles of enterprise contracting are "contracting for a fixed base figure, ensuring its delivery, retaining more in case of excess income, and making up with own funds in case of deficient income." Seen from the current conditions, for the contracting enterprise to retain more in case of excess income can be easily carried out but for it to make up with own funds in case of deficient income can hardly be done. Of the enterprises failing to fulfil their contracts, 80 percent and over are unable to use their own funds to make up the deficits. Rather, such

methods as keeping the accounts outstanding, or lowering the contracted targets, or reducing or exempting the outstanding accounts, are generally adopted, thus passing on the burden to the state. These methods simply nullify the principle of "ensuring the delivery to the state" and influence the stable growth of the state's financial income.

3. Serious state of enterprises turning to short-term actions. The enterprises' acts becoming of a short-term nature did not begin with the contracted management but, since implementation of the contracting system, it certainly appears that new forms have manifested, as seen from the following: 1) Investment of capital funds has assumed a short-term nature. The enterprises are unwilling to use their own funds to buy fixed assets which are relatively high in value, involve advanced technology, and do not produce large effects during the contract period but have an important bearing on the long-term development of the enterprises. They are, in fact, extremely indifferent to technical transformation projects. 2) Equipment utilization is of a short-term nature. Some enterprises, literally speaking, "drain the pond to get all the fish," heavily straining the equipment, overlooking repairs and maintenance, and excessively overloading the machines and equipment in production. 3) Development of personnel assumes a short-term character. Being satisfied with the status quo and paying no attention to the development of wisdom and training of personnel. 4) Use of profit-retention is of a short-term nature. Profit-retention is spent on group welfare or awards rather than on accumulation and clearly there is the phenomenon of edging out production and upping consumption. 5) The enterprises' management foundation seems to slide downhill, with contracting actually replacing administering. For example, certain enterprises have broken the rules for cost management and, for the sake of the temporary interests of the individual or the staff members and workers, they have indulged in falsehood, wrongly inflated the production costs and made them actually "production costs as the factory director likes." 6) The enterprises have a thin or weak concept of the overall situation, are unable to properly carry out the state's plan, and take the products inside the plan as products outside the plan and sell them at high prices, or actually increase the enterprises' income through increasing the prices at random.

4. There are fallacious constituent portions in the economic benefits of the contracting enterprises. Since the industrial and product structures of the entire national economy are in the process of readjustment, it is rational that the prices of a certain portion of the products should be suitably readjusted. The problem lies in that many of the contracting enterprises (such as enterprises producing certain commodities in stringent demand and enterprises whose products are decontrolled), when treating objective factors causing increases in expenditure, do not attempt to absorb them through tapping their own potential but rely on the channel of increasing the prices to shift the burden and thereby more easily

fulfil the contracting agreement. When the receipts from raising the prices of products are larger than the increased expenses from the rise in production cost, what the enterprises' economic benefits show is, to a large extent, a sort of "price benefits." At the same time, the benefits obtained by the enterprises through price increase do not increase the state's financial receipts. Whereas, should the enterprise suffer losses from price increases the state's financial receipts will be reduced or financial subsidies from the state will have to be increased. This encourages the enterprises' psychology of depending on price increases to increase their receipts and also aggravates the inequality in bitterness and sweetness between the enterprises.

5. The current contracting method has its partial limitations and is detrimental to macroeconomic adjustment and control. First, the "Provisional Regulations on the Contracted Management Responsibility System of Industrial Enterprises Under the System of Ownership by the Whole People" stipulate: "In general, the base figure for the upward delivery of profits should be determined by the amount of profits delivered in the preceding year; in the case of enterprises suffering from large fluctuations in profits because of the influences of objective factors, the base figure may be fixed on the average of the delivered profits during the preceding two to three years." Actual practice has shown that using the method of the base figure to determine the profit amount to be delivered has two drawbacks: 1) Lack of a unified objective standard. It makes only a vertical comparison with the past of the same enterprises and does not make any lateral comparison with the same industry or trade. It is thereby easy to make the enterprise feel satisfied with the status quo and carries the drawback of "whipping the fast ox." 2) Determination of the base figure must go through the process of negotiations. Its casual character is very marked making it easy for bureaucratism and other deceitful tactics to play a part. Second, regarding the forms of the contracting enterprises making delivery of profits to the state, the "provisional regulations" prescribe several forms, such as contracting on progressive increases in profit delivery, percentile distribution of the surplus over the contracted base figure for profit delivery, contracting for a fixed amount of profit delivery in the case of enterprises earning meagre profits, contracting for reduction of losses by loss-incurring enterprises, and so forth. Because consummation of these various forms of contracting must go through negotiation household by household, it frequently happens that only after the state has agreed on ceding interests can the contracting agreement be reached. Finally, as seen from the contracting contents, the "provisional regulations" prescribe two objectives, namely contracting for the delivery of profits to the state and contracting for completion of the tasks of technical transformation. Of these, the state puts the major point on the former and, as for the latter, it makes but a sort of restrictive demand. Hence, many enterprises have come to consider the former as a hard or firm task and the latter as a sort of soft task and actually the two contents

of contracting are reduced to one. In this only remaining content, taxes and profits are usually joined together and, in certain localities, there are cases of appearance of the contracting of circulation tax and taxes for specially designated targets. Due to certain existing problems in the current contracting method itself, due to government at various levels nursing a sort of "fatherly care" for the enterprises, and due to the contracting enterprises having consideration of their own interests and being concerned with the various kinds of indefinite factors, in the process of contracting there definitely exists the tendency toward "tending to the low side and not to the high side." This results in adding to the difficulties in increasing the state's financial receipts and stepping up macroeconomic control.

Seen from the macroeconomic side, the main factors in restricting the healthy development of the national economy are, first, insufficient investment in the basic industries such as energy, communications, and raw materials and, second, the rather considerable financial difficulties of the state which in nine out of the 10 years of reform recorded budget deficits. On the other hand, the existing contracting method not only is detrimental to solving the problems but also aggravate the contradictions arising therefrom: The enterprises, following contracting, invest heavily and add on the projects in a blind manner. On the other hand, they display low benefits and a low production level. As a result, the state's income falls each year and the enterprises' loans sharply increase. The large volume of loans not only exceed the enterprises' ability to repay but also make the burden borne by the state, heavier.

6. Internally, the enterprise responsibility system is imperfect while, externally, there is lack of coordination for the reform. First, certain enterprises have not taken aid from external contracting to push forward internal contracting to promptly improve the internal economic responsibility system; second, the degree of transparency of the contracting is not high enough, to a certain extent the problems of egalitarianism and "everybody eating from the same big pot" still exist, and the positivism of the staff members and workers cannot be effectively aroused; and third, there is confusion in the enterprise's internal management and severe waste and losses occur.

The reform's lack of coordination from the outside and great changes in the market environment are also important causes affecting the benefits from contracting. First, at present each year the state puts on stage a number of policies and measures on prices, wages, taxation, and interest rates. These external factors have greatly affected the enterprise's production and profits. While certain enterprises can easily fulfill their contracted tasks, certain other enterprises, though making the utmost efforts, have been unable to fulfill their contracted tasks. The contradiction between the ever-changing external environment and the static contracted base figure is outstanding in the extreme. Second, there is no organic union between the linking of work and effects and the contracting method and the enterprise's

consumption fund has increased too rapidly. At present, both the theoretical circles and the enterprise circles have come to realize that attending to contracting only cannot manifest the interests of the staff members and workers and their positivism cannot be aroused. If only the linking of work and benefits is attended to, then the distribution relation between the enterprise and the state cannot be ascertained or fixed and the phenomenon of the enterprises all eating from the same pot at the expense of the state cannot be removed. But if both methods are carried out at the same time then the situation will appear of the growth of the gross volume of salaries and wages exceeding the speed of the growth of the enterprises' delivery of profits and taxes. It may even show the tendency of exceeding the speed of the increase in the gross volume of realized profits and taxes. Third, confusion in the market order. There is a lack of coordination between policy and contracting. Units in certain departments have made random quotations and actually made levies at their will, causing the enterprises to lose the increased profits they have gained, affecting the technical transformation of the enterprises and increasing the burden of the contracting enterprises.

The various problems which have appeared in the course of implementing the contracting system have not all been brought about by the contracting system. Some are problems long standing in economic life; some are problems appearing in the course of the transition between the new and old systems; while some have been caused by the imperfections of the contracting system. However, the most basic cause is the lack of personified representation of the rights and interests of the owners of the state-owned assets and this is an old, big, and difficult problem, which disturbs the economy under the public ownership system. In the contracting operations beneficial attempts have been made to solve this problem but obvious drawbacks continue to exist. First, government departments, after contracting out the enterprises, are not responsible for the results of the operations of the assets while the enterprises are all the time negotiating with the government in order to obtain more benefits. This, in effect, is the nonseparation of government from enterprise functions and illustrates the restoration, in a certain way, of the old structure, second, it is difficult to coordinate the period and nature of contracting with the development strategy of the large enterprises. Third, present contracting retains many of the drawbacks of the old structure and is an obvious transitional form.

## II. Countermeasures

Like the various reform measures, the enterprise contracting system is the product of definite historical conditions. At present, despite the many comments on the contracting system, the general spirit of the central authorities still aims at the continued firm insistence on, and perfection of, the contracting system, accompanied by the demand to take improvement and rectification as the principal tasks and, for the time being, avoid putting on stage measures detrimental to improvement and



rectification. In accordance with this spirit, this writer believes that the key to perfecting the contracting system lies in smoothing out the profit distribution relations between the state and the enterprises. On this basis, we should emphatically solve such problems as the short-term actions of the contracting enterprises, their contracting for gains and not losses, and the state of the enterprises' stamina. Hence, we should employ the perfect measures which combine the long- and the short-term. 1. Changing the line of thought on enterprise contracting. On reviewing the course of development of the contracting system it is found that, in fact, there are two entirely different lines of thought on contracting. One is to arouse the enthusiasm of the enterprises through tax-reduction and interest-ceding. This kind of contracting is not necessarily accompanied by other coordinating measures and its effects are the same as playing the stimulating role of ordinary tax reduction. The other is contracting which, through smoothing out the property relations of the enterprise, strengthens the power of pressure of the ownership right, improves the internal operational mechanism of the enterprise, and puts the potential of the existing resources into full play. The former belongs to the extension type of contracting and the latter, to the intension type.

It should be pointed out that the principles of contracting of "fixing the base figure tight, ensuring the delivery upward, more retentions for excess receipts and making up for deficient receipts" in reality denote the thought of ceding tax and ceding interests. First, they just consist of mere talking about distribution from the outside and neglect the important significance of strengthening the functions of the ownership right and improving the enterprise's internal interest structure. Second, there actually is not any pressure on the enterprise to make good the deficit from its own means and only the provision of making percentile distribution in the event of excess receipts, truly has any significance. Thus, the scale of punishment and reward heavily leans on the side of providing benefits but merely providing benefits does not necessarily require contracting. The basic purpose of implementing the contracting system is to invigorate the enterprises through separation of the two powers and enhancing the enterprise's economic benefits. This is also the fundamental standard for assessing the good or bad performance of the contracting system. If it is desired to continue pushing and developing the contracting system, then it is necessary to take the contracting road of the intension type which has the objective of perfecting the enterprise's operational mechanism through tapping the potential, transformation, and putting the property relations in good order.

2. Recent measures in improving and perfecting the contracting system. During the period of improvement and rectification, the enterprises are confronted with a serious economic situation. For the sake of developing production and passing over the crucial period of difficulties, it is not possible to push aside and reformulate the existing contracting base figure and contracting

method, nor to allow them to remain unchanged. Rather, we should, on a stabilized basis, seek truth from facts and conduct readjustment. Regarding those enterprises which have performed well during the preceding period, in general their contracting should be renewed, to stabilize the relationship of responsibility, power, and interest between the state and the enterprise. As for those enterprises whose base figure in contracting has tended to be too high or too low, it should be permissible to sign new contracting agreements. In the case of enterprises yielding small profits and small enterprises, they should be differentially treated in accordance with the industrial policy and the contracting period and method may differ with different plants and units. At the same time, the major points in contracting should be shifted to the track of improving the enterprise's operational mechanism, overcoming short-term actions, and enhancing the economic benefits.

1) Grasping the coordinating reform on the enterprise's internal operational responsibility system properly. Enterprise reform only determines from the general framework the distribution relations between the state and the enterprise but the key to enhancing the effects, lies in reform of the internal operational mechanism. First, we must improve the enterprise's interest stimulate mechanism and also improve the form of interest distribution: The enterprise should get the large portion of any excess over the base figure and, the benefits obtained by the enterprise from contracting, a portion should be distributed to the staff members and workers. But this will not produce too large a stimulating effect on the staff members and workers who will obtain more directly and more benefits from the linking of work with effects. Hence, to improve the interest stimulant mechanism in contracting we should link the income of the staff members and workers directly with the contracting effects, thereby enlivening the distribution internally. Second, it is necessary to perfect the enterprise's self-restriction and regulation mechanism: such as pushing a responsible accounting system within the enterprise, properly perform internal auditing, installing an effective system for funds control, employing such levers as credits, loans, and final accounting, guiding and regulating the enterprise's daily activities, and so forth. At the same time, we should set up various production, operation, and control systems inside the enterprise and clarify the workings of the various stages and the responsibilities, power, and interests of those in charge and the staff members and workers. A contracting enterprise should introduce in an all-round way the competitive and risk-bearing mechanisms, implement the method of seeking tenders for internal target, extend the competition among enterprises to internally within the enterprise, reduce the accounting unit, divide and dissect the contracted tasks level by level and distribute them to the workshops, teams, and individuals, thus gradually setting up a contracting network.

2) Comprehensively treating the short-term actions of the contracting enterprise. While the inclination of

enterprises toward short-term actions has its internal causes, outside environmental changes also play an important role. In solving this problem we should proceed from various sides and conduct comprehensive treatment. First, the state should formulate a policy encouraging long-term actions by the enterprises. Frequent changes in policy cannot cause the operators to engage in any long-term planning. Second, we should set up a sound and economic technical guidance structure. At present, the targets of many contracting enterprises are of a unitary nature, one-sidedly stressing the target of profits and taxes and overlooking targets with a bearing on the enterprises' stamina. An internal target structure should be set up which takes the upward delivery of profits and taxes as the center, supported by other coordinating targets (such as fixed assets value-increment targets, new products development targets, assets perfection rate targets, and so forth), and the condition of fulfillment of these targets should be linked with the material interests of the operators and the staff members and workers. Third, the contracting period should not be fixed once and for all. It should be fixed individually according to the special features of the enterprise's production and operation. In principle, the contracting term or period for industry should be longer than that for commerce; longer for heavy industry than light industry; and longer for the technology-intensive type than the labor-intensive type. So far as the enterprise is concerned, be it in technical transformation or development of new products, an investment return or recovery period and effective period should be considered. If the contracting period is short, the enterprise and the entrepreneur cannot obtain any benefit from investments in renovating equipment and introducing new products, and this will affect the enthusiasm of the enterprise in making investment in long-term development. Finally, the method of linking work and effect should be improved and the growth of the consumption fund should be controlled. 1) The spirit of State Council Document No. 25 (1989) should be observed. The method of "general linking and separate taking" or "separate linking and separate taking" should be implemented and the method of "general linking and general taking" should be abolished. Enterprises not having completed their contracted tasks yet are not to draw any salaries or wages from the newly increased effects. 2) Enterprises subjected to the linking method should increase their salaries and wages on the basis of the elevation of the labor productivity rate and the increment of the economic effects; profit-increases depending on price rises should be deducted first before calculating the salaries and wages from the newly increased benefits.

In addition, in perfecting the contracting system and overcoming short-term actions it is also necessary to combine improving the economic environment, rectifying the economic order, and all-round deepening of the reform. After contracting, certain enterprises do not follow the financial system in business accounting and auditing, wrongly assess the production costs, and indulge in expenses at random. Some even go to the

extent of reporting losses as gains. Therefore, it is necessary to grasp as important contents the rectification of economic order and strengthening the enterprise's concept of abiding by law and discipline in improving the contracting system. At the same time, the state should also in a determined way stop the random making of levies and collection of sundry fees and charges, to create a benign external environment for improving the contracting system.

3) Setting up a contracting enterprise loss-bearing mechanism, to stabilize financial receipts. The direct cause of the contracting enterprise contracting for gain and not for loss is that a short-term contracting enterprise cannot make up for its income deficit from its own funds. How to enforce the measure of making up in the event of deficiency in income is a question on which current theoretical circles have different views. One viewpoint believes that separate accounting of the capital funds may solve this problem. The basic idea of the separate accounting system is: Demarcate according to a fixed standard the state's capital funds and the enterprise's capital funds and the portions belonging respectively to the state and the enterprise. The proponents of this scheme believe that with the enterprise having its own capital funds then making up can be realized. They do not seem to realize that these enterprise capital funds are given by the state to the enterprise and that, upon its failure to fulfill the contracted tasks, the enterprise only returns these funds to the state. The interests of the contractor of the enterprise are not affected in the least and the so-called self-making-up for the deficit is tantamount to returning the funds to the original owner and possesses no actual significance. In this author's opinion, in solving this problem we must proceed from the actual conditions of the weak foundation and lack of stamina of the current enterprises in our country. We cannot hope that in a short period of time we can basically remove this drawback. On the contrary, we should adopt a definite, feasible method and gradually set up a contracting enterprise's loss-bearing mechanism. Concretely speaking, short-term contracting enterprises, aside from using the current method of making up for the deficit from their self-owned funds and profit retention in the ensuing years, should give comprehensive consideration to the following: 1) Enforcing whole staff risks guarantee contracting. The contracting enterprise should, based on the size of the economic responsibility and the weight of the post responsibility, deduct from the monthly salaries and wages and awards of the entrepreneurs and workers a fixed sum to serve as risk-guarantee fund. When and as the enterprise is short-term contracting, then according to the rules the risk-guarantee fund should be used to make up. Naturally, the risk-bearing fund thus drawn may not be sufficient to make up for the deficits so far as the majority of enterprises are concerned, but the real significance lies not only in adding to the source of funds for making up deficits but also in dominating the understanding on the part of the staff members and workers as the masters of the house and changing the risks borne by

the entrepreneurs to risks jointly borne by the entrepreneurs and the staff members and workers, thus strengthening the devotion to, and the coagulating power of, the enterprise. 2) The enterprise should use profit-retention to set up the risk-bearing fund, which should be set aside yearly and designated specially for use to cover any deficit in payment of profits and taxes. 3) Maintaining the solemn nature of the contract and looking into the responsibility of the enterprise legal person according to the contract's provisions. 4) Scientifically and rationally fixing the contracted base figure. The contracted base figure centrally reflects the economic interests and their distribution between the state and the enterprise for the present and for a certain future period. Whether or not the base figure can be rationally fixed has a bearing on the enterprise's development stamina and the further improvement and perfection of the contracting system. In readjusting the contracted base figure watch the following points: A. There must be a unified measuring standard for enterprises of the same category in the same industry or trade and the points of difference from different enterprises should be demarcated, to reduce subjectivism. B. Readjusting the base figure should conform with industrial policy and have consideration for the interests of the three parties of the state, enterprise and individual. C. In view of the unstable external environment, irrational price system, imperfect market mechanism, frequent changes in the state's policy and the reality of discrepancies in the profit rate on capital funds of the enterprises, when readjusting the base figure we should also notice certain other factors which may influence enterprise contracting, particularly factors that may bring different opportunities to the enterprise.

3. Long-term measures for perfecting the contracting system. At present, the first round of the contracting is due to expire soon. The hot topics among people now are where the contracting system should go and how to proceed with the new round of contracting. But these discussions frequently stop at the original level and are principally centered on the extent of power delegation and interest ceding and the way to carry them out. In reality, in recent years, the problem that has risen in the contracting system is by no means the simple problem of working technique but that of restructuring the line of thought on the shifting the state functions. The long-term view is that we must transform the current method of contracting, implement the measures of "separate flow of taxes and profits, post-tax contracting, and post-tax repayment of loans," and realize standardization of the distribution relations between the state and the enterprise. The general principle should be to consider integration of improving the contracting system with reform of the enterprise income tax system and perfecting the management system of state-owned assets.

The current contracting method does not separate tax and profit but enforces their mix into a gross volume in contracting. This method not only has no rational basis but also, in practice, produces certain ill effects. A. It weakens the taxation system. Inclusion of income tax in

the contracting implies the thorough negation of regularized control, renders this social obligation of the enterprise which originally can be subjected to collection by means of standardized administration become a topic subject to negotiations, thereby causing a serious deformity in the enterprise's social obligations. B. National finance is unable to grow steadily. Implementing the measures of the separate flow of tax and profit and firmly insisting on contracting for profit only and not also for tax can avoid these deficiencies and enable contracting to proceed in the direction of standardization.

Implementing the separate flow of tax and profit and post-tax contracting has the following four advantages. 1) It is beneficial to the state's macroeconomic control and freeing the state from a large amount of contracting affairs; besides, the state can then improve the major points of the control and management of the large and medium enterprises and study the macroeconomic policy. 2) It is beneficial to setting up the restrictive mechanism of making the loan-making enterprise repay the loan. The current method of repaying loans before paying taxes is tantamount to the enterprise using the loan funds; the bank pays out the loan funds and finance pays out the funds in repayment. The bank involves no risks in granting loans, the enterprise has no responsibility for repaying loans, and all this simply stimulates the enterprise's incentive for investment. Post-tax repayment of loans makes the enterprise's making the loans and the bank's granting the loans subject to the restriction of the demarcation line of the amount of fund yearly held by the enterprise in post-tax profit retention. 3) It is beneficial in ensuring the stable growth of financial revenues. Collecting a fixed ratio of income tax from all the enterprises ensures the state's minimum proportion in the distribution of realized profits. 4) It is beneficial to the enterprises and ensures all the contracting enterprises compete fairly and on an equal basis.

Separate flow of tax and profit and post-tax loan-repayment form a standardized form of contracting. It is suited to the objective reality of the state possessing a dual status and double functions. These not only fully display the regulatory role of income tax, benefit the administration of state-owned assets, and realize the separation of the two powers, but also improve the current method of contracting. At the same time, post-tax contracting helps the enterprise to select the operational form suited to its own special features and deepens the enterprise reform.

#### Improving State, Enterprise Financial Relationship

91CE0073A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 10 Oct 90 p 4

[Article by Wang Zilin (3769 1311 2651): "Separating Tax and Profit, Perfecting the Contract Responsibility System- Putting the Financial Relationship between the State and Enterprises in Order"]



[Text] In 1987, state-owned enterprises implemented the diversified contract responsibility systems under the major form of the "two guarantees and one link." The principle is that enterprises must strictly guarantee the base figure, ensure remittances, increase retention of above-quota profits, and make up the amount they owe themselves. They repay loans before taxes are applied, which gives them a relatively large concession of profits in terms of the tax base, and has clearly been useful.

Although many problems still exist in the contract responsibility system, we must maintain its direction, for it is a relatively good method for dealing with the relationship between the state and enterprises. However, the system's mechanisms must be perfected. The vitality of the contract responsibility system comes from the fact that it is constantly being perfected.

There are two basic points to separating taxes and profits: First, we should implement a unified enterprise (corporate) income tax throughout society, in order to standardize taxation. Second, we should strengthen capital mechanisms. By clarifying after-tax profits and asset income, authorized enterprises can manage state-owned assets relatively independently through the contract responsibility system. They can also correctly handle the relationship between remitted and retained profits, and between state income and enterprise benefits. The contract responsibility system stipulates the managerial responsibilities and the relationship between owners and managers. This creates conditions for separating government and industrial enterprises and ownership rights from managerial rights at the outset.

Perfecting the contract responsibility system through the separation of tax and profits should be based on protecting the tax base, conserving financial resources, increasing financial revenues, and strengthening property rights.

**Protecting the tax base** does not mean merely expanding the current tax base to offset the decrease in taxes due to lower income tax rates. It is more important that the tax base is based on sharing. At the same time, the tax base should be unified. We must treat all kinds of economic ownership elements equally. If we reduce the tax base for enterprises owned by the whole people, the state will still own everything apart from the amount which shifts towards bonuses and personal welfare. But if enterprises under other types of ownership reduce their tax bases correspondingly, state assets will drain away. Therefore, the separation of tax and profit must be done by eliminating all pre-tax deductions, which will make the future reform of tax and profit separation more convenient.

**Conserving financial resources** means appraising the optimal input rate for enterprises in accordance with industrial policies and the need to increase economic results and financial revenues. Enterprise inputs must take the depreciation fund, renovation fund, product development fund, and the development fund from after-tax profits into overall account. These can be called

the overall capital inputs. The proportion of overall capital inputs to original assets is called the capital input rate. A capital input fund must be set up that corresponds to the capital input rate. Generally speaking, the capital input rate must be kept at 6 percent to maintain simple reproduction. If the rate reaches 12 percent and the effects of technological progress increase, we can reach a stable development state in which economic results continually grow at about 10 percent. This is equivalent to 40 percent of the net profits maintained out of realized profits. At present, the capital input rate in China's state-owned enterprises is around 10 percent, which is not low at all. However, the key problem is that enterprises restrict their activities only to their own spheres, and so investment mobility is very poor and the structure is irrational. Moreover, it creates a situation where consumption funds place a severe drain on capital input funds. For example, in the 1988 budget, 66 percent of the profits kept by state-owned enterprises went into production development funds, but they only accounted for 38 percent of fund utilization. The investment preparation fund is formulated based on the capital input rate, and then the depreciation fund, the renovation fund, and the research and development fund are deducted from it. The remaining amount is regarded as the limit of the accumulation fund which enterprises can reasonably keep. The investment preparation fund can be used for internal technological transformation or for external integration, to issue or control stocks, or to repay outstanding loans. Thus, they have found a "kite flying" method which is somewhere between enterprises' "self-development" and the planned economy based on public ownership. There is both encouragement and restriction of macroeconomic regulation and control, industrial policies, and ownership rights, and a wide area for enterprise accumulation and development.

**Increasing financial revenues** is an important part of perfecting the contract responsibility system. We cannot ignore the fact that it is also a basic factor restricting reform of the financial and tax systems. Presently the state financial budgeted revenue accounts for only about 19 percent of the state income. It must account for 19 to 20 percent of state income in order to maintain "subsistence finances." If we build the economy by relying on deficits and loans, then after a while state revenues will be on the verge of "bankruptcy." We must clearly understand that, in China, allocation of finances is conducted in a tight environment. This is because China is making the transition from an agricultural to an industrial country. Agriculture's capacity to take on the task of financial accumulation is weak. Economic construction is done mainly by industries, including the accumulation transferred from industry. Thus the state and enterprises must have a mutual understanding, and must help each other as well.

In China, increasing financial revenues by making taxes more complex can only run counter to our desires. We should do two things with regard to financial mechanisms. One is to encourage and promote the growth of

macroeconomic and microeconomic benefits. The other is to ensure that revenues increase at a steady pace along with increasing economic results. In this way, if taxes and profits are separated, all tax revenues will enter the financial revenue system, while after-tax profits will be used for asset management. Thus the relationship between remitted and retained funds will no longer wreak havoc, such as with the so-called "enterprise property rights." Neither will it affect fluctuations of financial revenue.

**Strengthening property rights** involves using property rights mechanisms to administer to the financial relationship between the state and enterprises. After taxes and profits are separated, there will be a relatively independent entity to observe the financial and managerial results. Enterprises can be divided into three categories and six types, based on whether they can survive (achieve the minimum bonus and welfare standards) and develop (achieve the standard of setting up a capital preparation fund) on their after-tax profits. The first category involves enterprises which need transfusions. They cannot sufficiently provide minimum bonuses and welfare with their own profits. There are two types of enterprises in this category: one type needs a managerial transfusion and the other needs a policy transfusion. The second category refers to enterprises which can barely survive. They can use after-tax profits to set up bonus and welfare funds. The third category includes enterprises which can develop; there are three types enterprises in this category. One type has a low level of development, but a definite capacity to develop. The second type is moderately developed, and can rely on after-tax profits to establish a sufficient capital preparation fund. The third type is highly-developed, and can not only use after-tax profits to set up a sufficient capital preparation fund, but can also turn over a large amount of capital earnings. Based on these classifications, we may make specific policies for managing ownership rights. We may also establish a mechanism for managing ownership rights which integrates the functions of guidance, encouragement, and restriction. First, determine the reasonable amount of earnings enterprises can keep by reforming the separation of the public accumulation fund and the public welfare fund. When retaining and using the public accumulation fund, enterprises may appraise the capital input rate according to industrial policies. We should establish a responsibility system to help enterprises which do not have enough after-tax profits to set up a capital preparation fund to meet targets within a certain period. During that period, the state may give quota subsidies at certain rates. With regard to the public welfare fund, which is divided into two parts, adopt methods which integrate level links and growth links. Level links must be divided into grades based on the proportion they have achieved of the industry's average after-tax profits. Enterprises may utilize the funds in accordance with this rate, which will encourage advancement. Growth links mean keeping the growth of the public welfare fund equal to the growth of after-tax profits, according to the annual state adjusted

base number and the index figure determined by the contract responsibility system. The base number of the public welfare fund may not develop and snowball alone. It must be adjusted in a unified way by the state in accordance with national capabilities and endurance and macroeconomic policies. For enterprises who do not have sufficient after-tax profits to set up a minimum public welfare fund, we must establish a standardized subsidy rate system and require them to reform the situation within a certain period.

Perfecting the mechanisms of ownership rights will affect the irrational vested interests of some enterprises. We should not be softhearted, but on the other hand we may keep some conditional and partial subsidies, and also introduce a responsibility system so that enterprises meet their targets within a certain period. In this respect the capital returns subsidy is an important tool for capital management.

In summary, in the course of separating taxes and profits, we can achieve the goals of deepening reform and perfecting the contract responsibility system only by protecting the tax base, conserving financial resources, increasing financial revenues, and strengthening property rights.

## PROVINCIAL

### Economic Relations Developing Between Five Autonomous Regions

91CE0123A Urumqi XINJIANG RIBAO in Chinese  
8 Oct 90 p 1

[By reporter Pan Jinfei (3382 6930 2431) in Urumqi: "Great Progress in Lateral Economic Ties Between Five Autonomous Regions—Joint Meeting for Economic and Technological Cooperation Recently Held in Urumqi"]

[Text] One important way to reverse as quickly as possible the economic backwardness of ethnic minority regions, and to narrow their disparity with the economically developed coastal regions, would be the development of lateral economic ties and economic and technological cooperation. This was commonly acknowledged at the Joint Meeting of Five Autonomous Regions for Economic and Technological Cooperation, recently held at Urumqi on 24 September.

In recent years, great progress has been made in economic construction and in establishing lateral economic ties between the five ethnic minority autonomous regions of Guangxi, Tibet, Ningxia, Inner Mongolia, and our own Xinjiang. According to statistics, contracts for over 17,000 single projects of economic and technological cooperation have been signed between the five autonomous regions and fraternal provinces and municipalities during the period from 1984 to 1989, resulting in the investment of 1.63 billion yuan of capital and involving cooperation in the supply of materials to the value of over 7 billion yuan. Completed projects have

increased output value by 4.4 billion yuan, have yielded 850 million yuan of profits and tax revenue, and have brought in or newly trained 35,000 man-times of personnel well qualified in various technical fields. By now this has already resulted in an initial network of joint cooperation in such areas as textile manufacturing, sugar production, engineering and electronics industries, materials supplies, and higher education. Several enterprise groups and enterprise conglomerates have been organized, and these have achieved gratifying economic returns and social benefits, and have had a positive effect, promoting the development in economic, technological, cultural and educational affairs.

At the present joint meeting, held from 21 to 24 September at Urumqi, it was agreed upon, after thorough deliberations and consultations, to institute between the five autonomous regions certain preferential procedures and specific measures for lateral economic ties, and a report was submitted to the state with the request to be favored with a nine-point favorable policy. The present joint meeting also decided to allow the Xinjiang production and construction corps to participate as members at the joint meeting.

#### **Xinjiang Commentary on Second Phase of Contract System**

91CE0088A Urumqi XINJIANG RIBAO in Chinese  
6 Oct 90 p 1

[Commentary by staff commentator: "Exert Ourselves To Do A Good Job in the Second Round of Contracts"]

[Text] About 90 percent of contract enterprises in Xinjiang Autonomous Region need to switch to the second round of contracts because their first round of contracts will expire before the end of 1990. Doing a good job in this work concerns not only the stability of enterprises and the development of the economy but also the achievement of the goals of the entire campaign to improve economic environment and rectify economic order and to deepen the reform. Party committees and government organs at all levels and all departments concerned must strengthen leadership, carefully organize people, and closely coordinate with others so as to fulfill the task of the second round of contracts on schedule.

The achievements made by our region in the first round of enterprise contracts are obvious to all. But there have been some problems in the course of implementation. They are mainly as follows: The decisions on contract basis are not accurate and rational enough. The contract index system and the restraining mechanism are still incomplete. Some enterprises have short-term behavior. The selection of a few enterprise managers is inappropriate. The relations among the party, the government, and the industry have not been smoothed out completely, the duties and responsibilities of the units which award the contracts are not spelled out clearly or carried out satisfactorily, and the contract system is replaced to

a certain degree by the administrative system. These problems should be resolved conscientiously in the second round of contracts.

The key to doing a good job in the second round of contracts is to do a good job in the work of ideological mobilization to overcome the fear for difficulty, brace up, and increase confidence. We should admit that enterprises in our region still face many contradictions and difficulties. For instance, the sluggish situation of the market has not been basically alleviated, products are seriously overstocked, capital turnover is difficult, some enterprises have a serious shortfall in output, and some suffer declining efficiency. All this makes it more difficult for us to do a good job in the second round of contracts. However, we should also notice the following favorable conditions: the improvement and rectification campaign has already achieved the results expected at this stage. The economic situation is developing in a good direction. The contract system has already been widely accepted by enterprises and workers and has a broad popular basis. The understanding of the contract system of all circles is becoming unified. The State Council and the autonomous region's people's government have formulated and transmitted to lower levels relevant policies and regulations, adhering to the stability and continuity of policy. Because of this, it is not impossible to resolve the current contradictions and overcome the difficulties. The key is to have a positive thinking and a die-hard, pioneering, and devoted spirit. The departments concerned should vigorously help enterprise leaders clear their minds of doubts and solve enterprises' problems in production and management to enhance their confidence in continuing to do a good job in the contract system.

The time is short and the task is heavy for the second round of contracts. The work is very difficult and many areas are involved. The departments concerned should vigorously coordinate and work in concerted efforts. They should study clauses concerning their own work and duties and the contents of service required by the contracts, put forward their own opinions, and take the initiative to coordinate with the departments in charge. At the same time, we should put special stress on the coordination of policies. Policies and regulations issued by the government in the past to enliven enterprises should adhere to the principle of not changing and not withdrawing. As long as they do not violate the spirit of the central government, they will continue to be implemented. Policies and regulations issued by all departments on the enterprise reform should be unified in accordance with the spirits of relevant documents of the State Council and the autonomous region. This will help avoid multiple administration and the creation of chaos.

#### **Guangzhou's Seventh Five-Year Plan Economic Performance**

91CE0123C Guangzhou GUANGZHOU RIBAO  
in Chinese 9 Oct 90 p 1

[By reporter Wu Jianhong (0702 1017 4767): "Distinct Growth of Economic Strength, More Material Benefits



for the People, Even Larger Contributions to the State—Overall Development of Guangzhou's Economy During Seventh Five-Year Plan Period—Overfulfilment of All Norms is Forecast, Large Increases Over Sixth Five-Year Plan"]

[Text] The period of the Seventh Five-Year Plan for the development of China's national economy, which will conclude at the end of this year, was a time of monumental achievements in the history of Guangzhou's economic development. According to the forecasts of pertinent departments, all economic norms in Guangzhou's Seventh Five-Year Plan will be overfulfilled, and compared with the Sixth Five-Year Plan, they will show a distinct growth in economic strength, much more material benefits for the masses, and much increased contributions to the state.

During the Seventh Five-Year Plan period, the entire population of the city, under the correct leadership of the municipal CPC committee and city government, had dedicated themselves heart and soul and with unswerving determination to the tasks of reform and opening up to the outside world. It was in particular due to Guangzhou fully profiting from the policies that the city has been favored with by the central authorities and by utilizing its favorable situation of being a city carried as a separate entity in the state plan, a coastal "opened-up" city, and a key city in Guangdong's experimental region for comprehensive reform, that Guangzhou was able to forge ahead, to promote energetically the overall, well-coordinated reform of the economic system, as well as to promote the overall development of the national economy for the entire municipality.

The period of the Seventh Five-Year Plan has been for Guangzhou a time of large constructions on an unprecedented scale. During the five years, under the macro-economic guidance of the state plan, it is estimated that the total social investments throughout the entire city have risen on the average by 20.7 percent per year. Through the control of the total volume of investments, the city effectively optimized the composition of its investments. Particularly due to the two years of the movement for "improving the economic environment, rectifying the economic order," the excessive growth of the economy toward the end of the Sixth and early in the Seventh Five-Year Plan, the excessively rapid investments, especially in unproductive projects, and the steep climb of commodity prices, have now all come under control. Investments in productive developments throughout the city and particularly proportionate investments in such key undertakings as energy sources, transportation, postal and telecommunications, have all gone up. During the period from January to June this year alone, investments in these key developmental industries are somewhat over 40 percent of the total investments of the city. Compared with the corresponding period of last year, investments in energy sources have increased 92.77 percent, and within this figure the investment for electric power has increased

2.15 times, while increases in postal and telecommunications have increased 28.03 percent. Educational and scientific research affairs, which in the past had fared badly, have been very distinctly increased. During the first half of this year, investments in education have been increased 29.25 percent compared with the corresponding period last year. Investments in such areas as public health, sports, and welfare, areas which are closely linked with the livelihood of the population of the whole city, have been greatly increased; for the first half of this year alone, they were increased 2.21 times, compared with the corresponding period of last year.

Construction on an unprecedented scale has conspicuously increased the economic strength of the city. According to forecasts by the municipal bureau of statistics, the GNP of this municipality, income of the population, gross value of industrial output and of agricultural output, total value of social commodities retail sales, budgeted fiscal revenue will all have increased on an annual average of 9.3, 7.2, 12.3, 4.3, 14.5, and 7.56 percent, respectively. Improvements have also been effected in the entire city's infrastructure. Its harbor-handling capacity has been increased by an additional 4.55 million tons, an additional 380,000 kilowatt (not including hydroelectric power) was added to the independent sources of electric power, 200,000 additional telephones were added throughout the city, and all units are program controlled. An additional 21.6 km of new roads have been added in the municipality, and 36 new large and small bridges have been built. An additional daily capacity for the processing of 289,000 tons of sewage has been added, and an area of 96.6 square km has been set up as smoke control area. The whole city basically requires nine years of basic education, and scientific and technical personnel throughout the city now number 160,000, which is almost double the number during the Sixth Five-Year Plan.

During the last five years, income of Guangzhou's urban and rural population has increased each year, and according to forecasts by the Municipal Bureau of Statistics, this year's average annual wage or salary income of the city's staff and workers is 3,641 yuan, an increase of 11.3 percent over last year. The average monthly income of the urban residents of the city is 214 yuan, an increase of 9.24 percent over last year. After due deductions for the commodity price factor, the average annual progressive increase of salaries and wages for staff and workers during the last five years was 4.3 percent, for peasants the average annual per capita progressive increase in net income was five percent. Rapid developments have taken place in the construction of residential houses, in the provision of public means of transportation, in nurseries and kindergartens, hospitals, sanatoria, and in public health as well as in cultural and recreational affairs. During the last five years, an additional 5,533 hospital beds have been added throughout the city, and 17,269 square meters of new housing has been built. The long-standing problems, which had been vexing for all of Guangzhou's citizens, namely the difficulties of

obtaining medical treatment, of finding a seat on a public transport vehicle, or to get housing and to enter children into kindergartens, all these problems have been brought much closer to resolution.

The time of the Seventh Five-Year Plan was a critical juncture for Guangzhou municipality in that it had to shift to a foreign trade-oriented economy. In the last five years, foreign capital actually used by this municipality is forecast to reach \$1.019 billion, and this has enabled importation of large quantities of foreign advanced technologies and equipment. Our municipality's foreign trade and exports rapidly advanced, increasing at the progressive rate of 25.7 percent annually. This year's total foreign trade and exports will amount to \$1.3 billion, which will be over double the amount during the Sixth Five-Year Plan. The foreign trade-oriented economy of Guangzhou has by now indeed initially assumed considerable proportions.

The period of the Seventh Five-Year Plan is an important period for the active promotion by Guangzhou Municipality of the reform of the economic structure and for the construction of a socialist economic operational mechanism. In the last five years, the contracted management responsibility system will have been comprehensively instituted throughout the municipality, and enterprises have been asserted in positions of market entities. While maintaining public ownership as playing the dominant role, Chinese-foreign joint ventures, independently financed enterprises, as well as individual and private economy has been energetically developed, bringing the ownership structures more in line with the present level of productive forces.

The period of the Seventh Five-Year Plan is also the time when Guangzhou municipality will be making larger contributions to the state. According to statistics, during the last five years, Guangzhou Municipality as a whole will have turned over to central and provincial finances a total of over 21 billion yuan (this comprises budgetary remittances to higher authority, revenue from various taxes, profits and taxes turned over to higher authority by financial organs, and also various bonds and loans of the central authorities), which was even 88.59 percent more than the 11.135 billion yuan of total local financial revenue of the entire municipality during the Sixth Five-Year plan period. Besides this, the municipality also turned over to the state a further total of \$1.1 billion in foreign exchange.

### **Guangzhou's System for Monitoring Macroeconomy Evaluated**

91CED123b Guangzhou GUANGZHOU RIBAO  
in Chinese 11 Oct 90 p 1

[By reporter Cai Hui Fang (5591 1920 5364): "Evaluating Monitoring Performed by Guangzhou's Macroeconomic Forewarning System"]

[Text] Guangzhou has developed and put into operation, in advance of any other place throughout the country, a

monitoring system for regional macroeconomic forewarning, and this system was yesterday subjected to an evaluation. Experts believe that the said system "is of a level that is in advance of any similar research carried out throughout the country."

The said research is being conducted jointly by the Economic Research Institute, the Bureau of Statistics, and the Economic Information Center of Guangzhou Municipality. By observing, analyzing, and scientifically adjusting and selecting monthly or quarterly indices of the national economy of Guangzhou Municipality for the last 10 years, it was possible to set up a system of indices which was sensitive to and truly reflective of the fluctuations in the economic processes. Through monitoring this system of indices, it is possible to quickly and comprehensively reflect and graphically outline the state of economic operations throughout the entire region, also to point out whether the economy is performing normally or not, and as a result making it possible to provide scientific data for macroeconomic decisions of the government. At the end of last year, when the task force used this forewarning system to analyze Guangzhou's economy in the first half of 1990, they forecast a negative growth of industry of around two percent and an across-the-board decline in commodity prices, citizens' incomes, and state revenue. The actual outcome was indeed a negative industrial growth of 2.5 percent, an error in the forecast of 0.5 percent, while in the case of fiscal revenue the actual figures were somewhat less than forecast because of the effect of adjustments in the tax policy.

Participating in the evaluation were, from Beijing, Wu Jiawei [3527 1367 1014], deputy director and research fellow of the State Information Center, and Liu Shucheng [0491 2885 2052], deputy director of the Institute of Quantitative Economy and Technical Economy of the Chinese Academy of Social Sciences, as well as from the Guangdong region several specialists and professors in such fields as economics, quantitative economics, mathematical statistics, automatic controls, etc. The specialists appraised very highly the special characteristics of the system, saying that it enriches the theories on socialist economic fluctuations; that it is a piece of pioneering research which perfected a method of comprehensive monitoring and forewarning in the analysis of fluctuations; that it has a high degree of accuracy in its forecasts; and as well that it adopts graphic identification techniques and numerical analog simulations, which facilitate operation and application. It also has general soft ware applicability, which will make simple disseminating the system.

### **Developing Relations Between Coastal Province and Interior**

91CED123D Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 27 Oct 90 p 1

[Article by Fei Qiang (6316 1730) of Jiangsu Province: "Gratifying To See the New Relationship Between the Coastal Region and the Interior"]

[Text] During May and June, something new has appeared in the two provinces of Jiangsu and Zhejiang as well as in Shanghai Municipality. The leading comrades in China's top coal-producing province, Shanxi, have personally brought delegations to Shanghai, Jiangsu, and Zhejiang, i.e. to two provinces and one city which all suffer from insufficient energy supplies, in a performance that is expressing appreciation and gratitude, and to discuss further expansion of their mutual lateral economic cooperation and its supra-regional development.

In the past, there have already been frequent contacts between Shanxi and Jiangsu, Zhejiang, and Shanghai. One party possesses coal and one party is short of coal and electric power, and it is only natural that the party wanting coal would take the initiative to call on the producer of coal. At the end of every year and on holidays, executive officers of the local governments and enterprises of the coastal regions and enterprises would therefore personally proceed with a large retinue to Shanxi Province and express their gratitude in visits to all the coal mines. However, this year the situation was completely reversed in that was the coal-producing province that paid visits to the coal-consuming provinces.

To many this was a most incomprehensible situation and they commented: "Is it perhaps that Shanxi has too much coal, which they cannot sell?" In actual fact, however, this peculiar new state of affairs is the manifestation of a new economic relationship between the coastal region and the interior, between provinces with manufacturing industry and provinces of raw materials and energy sources, a relationship of mutual dependence and mutual support. Shanxi Province is producing millions of tons of coal every year and is providing large amounts of "industrial fodder" for the industries of the coastal region, thereby promoting and giving impetus to the development of industries in the coastal region, while at the same time obtaining in exchange an abundant revenue, advanced production technologies, and managerial experiences. The provinces of the coastal region, on the other hand, import from Shanxi large quantities of coal and thereby correct their own "inadequate natural endowment" of lack of coal and insufficient electric power. Moreover, the large demand for coal in the coastal region presents Shanxi with a broad market, and this allows the large contingent of coal miners to gain proper value for the coal which they produce in arduous labor.

We may say that without the labor of the coal miners of Shanxi Province, no rapid progress could have been achieved by the manufacturing industry provinces of the coastal region, and without the development of the manufacturing industries in the coastal region, Shanxi Province would not enjoy its own economic prosperity. If we think about this connection concerning conditions in the past, of the relationship between coastal region and the interior, between manufacturing industry provinces and raw material and energy source provinces, "a great coal war," "a great silkworm cocoon war," or "a

great cotton war," regularly raged, and more recently, there has been an increasing trend to "blockade" one's market against all others, is this not really ample cause for elation and applause to see this new relationship between the coastal region and the interior?"

### Guangdong Commentary on New Phase of Contract System

9JCE0088B Guangzhou NANFANG RIBAO (in Chinese)  
13 Oct 90 p 1

[Commentary by staff reporter Wu Ling (0702 3781): "Strengthen the Auditing Work of the Contract Management Responsibility System and Do A Good Job in Linking the Two Contract Periods"]

[Text] How can we do a good job in linking the two contract periods and further improve the enterprise contract management responsibility system? Practice in the past few years shows that we must do a good job in the auditing work of the contract management responsibility system and improve coordinating measures for the contract management responsibility system.

Since 1986, Guangdong Province has audited and appraised the economic responsibility of outgoing plant directors (managers) of state enterprises, thus exercising a certain amount of supervision and restriction on enterprises' contract operations. Since 1989, the provincial audit department has audited a total of 4,139 contract enterprises. In the course of auditing, a prominent problem was discovered. That is the universal lack of management, supervision, and restriction system regarding the safety, use, and appreciation of state property in management and operations. For instance, some leaders did not carefully examine the qualifications of contractors and indiscriminately awarded enterprise contracts, thus giving criminals opportunities to exploit and subjecting enterprises to unnecessary losses. Shenzhen City has once contracted state enterprises to some people of dubious background. After they had taken over the power of the enterprises, willfully squandered the money, and satisfied their own selfish desires, they simply disappeared, and they were nowhere to be found. Many problems also existed in the areas of setting contract bases and signing the contracts. Some responsible departments set the contract bases too high, and enterprises ran out of energy and lacked vitality in production. Some enterprises' contract bases were set too low, and enterprises and individuals gained too much profits, causing the consumption fund to expand. As for signed contracts, some did not have strict regulations on enforcement and penalty, and there was great flexibility. When contractors failed to fulfill their contract tasks according to regulations, they would use all kinds of excuses to defend themselves. Some even used various means to carry out covert activities to wilfully alter the clauses in the contracts without having to assume any responsibility for economic losses. Currently, many contractors think that contracting an enterprise means that after they have fulfilled their task, they



can do whatever they want to do. As a result, some willfully expanded the scope of cost expenditure and then distributed the portion of profits retained for enterprise use. Instead of retained some profits for reserve funds, some divided up and used up all profits. Some even adopted irregular methods to evade state taxes and other levies and issued bonuses and material rewards indiscriminately. The statistics of 1,593 contract enterprises audited by the audit department show that a total of 350 million yuan of violations have been discovered since 1989. In addition, 674 contract enterprises were dishonest in compiling their financial reports of profits and losses, and owed the state money in the amount of 140 million yuan.

How can we overcome the shortcomings still existing in the contract management? How can we develop the strong points and eliminate the shortcomings? It looks like that strengthening contract management responsibility audit is imperative. The contract management responsibility audit came into being along with the appearance of the contract management responsibility system. It is a form of audit that is based on the contracts and examines the economic responsibility specified in the contracts for the purpose of verifying the implementation of economic responsibility and ensuring that the contracts are fulfilled conscientiously. Because of this, we should supervise and manage the entire process of enterprises' contract operation. For instance, we must follow the work order of auditing first and honoring later during the involvement before the signing of a contract, the supervision after the signing of a contract, the necessary audit at the termination of a contract, and the honoring of a contract and a contractor.

At present, the new round of contract work has already begun. The audit department should do a conscientious job in linking the two contract periods. With regard to those enterprises whose contracts have expired, we should conduct factual evaluation of the enterprises and their managers in accordance with the terms of their contracts so as to give plant directors (managers) a clear picture when they come and when they leave. In this way, the able people would not be neglected and the incompetent people would be penalized. This can also provide a basis for the new round of contracts.

### **Xinjiang Expands Economic Ties to Other Regions**

OW2011145190 Beijing XINHUA Domestic Service  
in Chinese 0622 GMT 20 Nov 90

[By XINHUA reporter Fan Yingli (2868 5391 0448)]

[Text] Urumqi, 20 Nov (XINHUA)—The recently opened Eurasian land bridge, tempting oil exploration prospects in Tarim Basin, and a rich endowment of natural resources have made the vast expanse of remote Xinjiang the focus of people's attention.

There has been a "Xinjiang fever" in economically advanced regions such as the Chang Jiang delta, the Zhu

Jiang delta, and Sichuan Plain since September. Chief responsible persons from many provinces and cities led economic and technical delegations to visit Xinjiang to discuss economic and technical cooperation. Provinces and cities which have sent delegations to visit Xinjiang include Zhuhai City, Jiangsu Province, Gansu Province, Sichuan Province, and Jiangxi Province. Lately, Xinjiang has been preparing itself to welcome the visit of Liaoning Province's delegation.

Since the beginning of the year, more than 200 different national have visited Xinjiang in search of joint development. Almost all delegations in search of economic cooperation proposed collaborating with Xinjiang to fully exploit port facilities, develop foreign trade, and export their products to the international market.

Large-scale resource exploitation in Xinjiang is also a factor attracting the interior and coastal provinces. Zhuhai City proposed joint development of resource bases with Xinjiang, and exploration of a new path of a "Sino-Sino-foreign" type of joint venture so as to seek a departure from the previous economic structure of obtaining raw materials from the outside world and exporting the final product. Jiangsu Province and Jiangxi Province agreed to jointly invest in the development of a cotton production base in Xinjiang to overcome an acute raw material shortage of the textile industry in the two provinces. Meanwhile, Gansu Province plans to capitalize on the opportune timing of oil exploration in the Tarim Basin and seek a new avenue for its strong petrochemical industry and its oil equipment; it also wants to participate in Xinjiang's minerals resource exploitation with its edge in nonferrous metals industry.

From the economic opening, Xinjiang has reaped tremendous benefits. This remote and landlocked autonomous region is gradually shedding its isolated situation and has forged a close economic link to interior and coastal regions.

According to statistics, since Xinjiang started economic and technical cooperation with interior and coastal regions in 1984, it has established collaborative ties to 29 provinces, municipalities, and autonomous regions throughout the nation, and 19 central government units. It has also established reciprocal assistance relations with Shanghai Municipality and Jiangsu Province.

Economic cooperation attracted capital and technology, accelerated the exploitation and utilization of Xinjiang's advantages in natural resources, and injected vitality into the local economy. In the last six years, Xinjiang has absorbed 430 million yuan of investment funds from sister provinces and cities. It has signed 6,253 types of economic and technical cooperation projects, of which 4,726 projects are either completed or in progress. Increased output value and profits and taxes through these cooperation projects have accumulated to 1.65 billion yuan and 290 million yuan respectively.

Through links with branded quality products of the interior and the coastal regions, Xinjiang's local products have gradually penetrated the domestic market or even entered the international market.

Xinjiang has concluded and implemented 1,036 collaboration projects through joint ventures with numerous provinces, municipalities, autonomous regions, and enterprises directly under the central government, in areas such as cotton spinning, chemicals, jade processing, salt production, and development of a wool production base. When these projects are completed and go into operation simultaneously, they will transform Xinjiang's advantages in natural resources into commodities advantages, and change Xinjiang's previous economic situation of being a pure supplier of raw materials and primary products.

## FINANCE, BANKING

### New Means of State, Enterprise Interest Distribution

91CE0126A Beijing JINGJI YU GUANLI YANJIU  
[RESEARCH ON ECONOMICS AND  
MANAGEMENT] in Chinese No 4, 8 Aug 90 pp 48-51

[Article by Wu Hanzhi (0702 3211 1807) and Jiang Huizhong (5592 1979 6988): "Exploring New Ways To Optimize the Interest Distribution Relationship Between the State and Enterprises"]

[Excerpt] [Passage omitted] in accordance with the spirit of the plan that calls for the contract management responsibility system to be further perfected and for the distribution relationship between the state and enterprises to be further optimized, the Ministry of Finance introduced a reform program for separating taxes and profits, and it chose Chongqing in Sichuan province to implement this reform on an experimental basis. This program very quickly began to attract notice from all quarters for the freshness of its theoretical approach and the clear success of the experiment.

1. The basic philosophy behind the plan for tax-profit separation is as follows:

1) The program's point of departure was the dual role of the state. On the basis of its role as regulator of society, the state was to collect taxes from enterprises. On the basis of its role as the proprietor of state-owned assets, the state was to participate in the allocation of after-tax enterprise profits. Taxes and profits, which are different in nature, were to be managed separately.

2) The state was to act in accordance with the principle of fair taxation in setting income tax rates, thereby creating the necessary preconditions for the implementation of separate taxes for the central and local governments.

3) The reform which resulted in enterprises handing taxes rather than profits over to the state produced

enough taxes to assure the maintenance of state revenue. The reform which established the contract management responsibility system made use of the contract to stimulate the enthusiasm of enterprises for production. The idea of this program was to combine the advantages of these two reforms to overcome their disadvantages in order to achieve an organic union of the macroeconomic interests of the state with the microeconomic interests of enterprises, thereby optimizing the distribution relationship between the state and enterprises.

4) The enterprise investment mechanism was to be changed, and a self-oversight mechanism for enterprises was to be gradually implemented.

The philosophy described above dictated the core elements of the tax-profit separation reform program: tax-profit separation, after-tax repayment of loans, and after-tax contracting.

2. The actual experience of implementing the tax-profit separation program.

Chongqing municipality began implementing the tax-profit separation program in 1988, which covers 630 firms as of today, or 60 percent of all industrial enterprises within the state plan and 84.5 percent of all large- and medium-size industrial and commercial enterprises. The reform was implemented through the following steps:

1) The income tax rate was set. All income taxes, in principle, were lowered from 55 percent to 35 percent in order to facilitate fair competition. However, due to the fact that prices are far out of equilibrium, as well as the fact that operating conditions vary widely from one enterprise to the next, a five-grade progressive tax on income from wages and salaries in excess of specific amounts has been adopted temporarily to deal with cases individually. The lowest tax rate is 10 percent and the highest is 35 percent.

2) Regulatory taxes were eliminated.

3) Loan repayment amounts were set. In principle, all loans repayments were to be made after taxes instead of before in order to [? make investing entities change places?] and control over-investment. Chongqing municipality adopted the method of dealing with each case on an individual basis and getting loans repaid one step at a time. In the first phase of the tax-profit separation program among 630 enterprises in the municipality, these enterprises on average repaid 58 percent of their loans before taxes.

4) Contract profits were defined as follows: contract profits to be handed over to the state by enterprises = the base number annual enterprise profits - loans repaid before taxes - income tax to be paid to the state - the base number for annual profits actually retained by enterprise - loans returned after taxes.

3. The result of the tax-profit separation program.

1) It spurred development of production and improvement of economic benefits. Statistics from the 242 industrial enterprises which began implementing the tax-profit separation program in 1988 indicate that their gross output, sales taxes, total profits, enterprise-retained profits, and profits handed over to the state (including income taxes and contract profits handed over to the state) rose, respectively, by 13.28 percent, 16.65 percent, 45.48 percent, 48.74 percent, and 61.12 percent over the previous year. During this time,

although other factors (such as prices) also had an effect, it is undeniable that the tax-profit separation program played a positive role.

2) The interest distribution relationship between the state and enterprises was optimized. At this point we can compare the 242 industrial enterprises which implemented the tax-profit separation program with 122 industrial enterprises which carried out the contract management responsibility system to arrive at a clear conclusion:

reform type	total profits	increase over previous year	fiscal revenue	increase over previous year	enterprise-retained profits	increase over previous year
242 enterprises under tax-profit separation program	714.7 million	58.6%	214 million	51.2%	293.24 million	45%
122 enterprises under contract management responsibility system	32.4 million	74.4%	1.455 million	10.4%	17.84 million	98%

3) This reform facilitated the formation of an investment mechanism that would spur enterprises to regulate their own activities. After the reform of the method of loan repayments, enterprises paid closer attention to getting a return on their investments and their ability to afford such investments. As a case in point, the 242 industrial enterprises which implemented the tax-profit separation program achieved a 1:1.47 ratio of new inputs to new output in 1988, which was significantly higher than the 1:1.1 average ratio achieved by all industrial enterprises in the municipality.

respect to state-owned assets in their function as generators of economic benefits. a) state-owned asset management agencies can be established and perfected more quickly; b) the establishment of such agencies can spur optimized allocation of new and existing state-owned assets; c) a method for maximizing and making independent use of the increasing value of state-owned assets.

Apart from the fact that it incorporates the advantages of the contract management responsibility system, this is the unique function served by the provision of tax-profit separation.

#### Evaluating and perfecting the new program.

##### 1. A preliminary evaluation of the tax-profit separation program.

Because the tax-profit separation program is still in the experimental stage, it is still too early to offer a comprehensive evaluation of it, but one thing is certain: separating taxes and profits has been a clear breakthrough in the effort to resolve the problem of appreciation of state-owned assets.

For these reasons, separating taxes and profits may very possibly point the basic direction for deepening enterprise reform after the second phase of the contract management responsibility system has been completed in 1992.

##### 2. The system of tax-profit separation needs to be further tested and perfected.

The system of tax-profit separation is feasible in theory, but experimental implementation has shown that the following problems must be earnestly studied and resolved.

From the standpoint of theory, the tax-profit separation program made a qualitative distinction between the state's tax revenues and its profit revenues, the two of which are different in nature. It stabilized and subjected two different types of distribution relationships between the state and enterprises to set standards, thereby advancing beyond the traditional philosophy in which no distinction between taxes and profits was made, and providing a new logical approach to future efforts to achieve a thorough reform of this system.

1) We cannot push too quickly in shifting main investment positions or expect to finish the job in a single stroke. While it is true that switching from pre-tax repayment of loans to after-tax repayment of loans can restrict craving for investment, individual situations should nevertheless be handled on a case-by-case basis. For example, since the implementation of after-tax loan repayment, enterprises have been unenthusiastic about investing in some infrastructure and environmental protection projects which would not directly generate economic benefits, projects which are highly beneficial to society but are only marginally beneficial at the micro-economic level, and projects which, while necessary,

From a practical standpoint, making taxes and profits flow through different channels has introduced a distinction between the two different roles played by the state, thereby attaining three concrete achievements with



require large investments and have long payoff periods. At the same time, in an objective sense, the after-tax loan repayment mechanism encourages enterprises to invest in projects that have a short start-up cycle, fast returns, and high effectiveness, which is not conducive to the implementation of the industrial policy. We recommend the following: a) We cannot expect to shift main investment positions in a single stroke, but should handle each enterprise on a case-by-case basis, carrying out a gradual transition; b) we should take guidance from the industrial policy in formulating new methods of investment and loan repayment.

2. We must clarify to whom belong the assets which are created under the system of after-tax loan repayment. In theory, any appreciation in state-owned assets should be distributed along with other enterprise profits, but after we switch from pre-tax loan repayment to after-tax loan repayment, who does this portion of assets actually belong to? How do they benefit enterprises? These questions should be cleared up, or we will sow the seeds of future "short-term behavior" and affect the long-term health of enterprises.

3) The order in which contract profits are calculated is turned around. The appreciation of state-owned assets should, by all logic, be determined on the basis of such factors as proportion, interest, and funds-to-profit ratio of state-owned assets, but the current sequence by which it is calculated is as follows: taxes—after-tax profits—enterprise-retained profits—contract profits. Because it accords first protection to enterprise-retained profits, this method of calculation could very possibly weaken the restrictions which require enterprises to turn over contract profits from income made on state-owned assets. This is at odds with the program for separating taxes and profits. We recommend changing to the following calculation sequence: taxes—after-tax profits—contract profits handed over to the state—enterprise-retained profits. If we take care of practical matters, then it will only be a short-term model of transition.

4) The current tax system requires deeper reform. Because the current reform is limited to the distribution of profits between the state and enterprises and does nothing to readjust the distribution of all enterprise income, the efficacy of the tax-profit separation program has been limited. At the same time, under the current tax system, which is built upon the foundation of the two-step substitution of tax for surrendered profit and which relies primarily on enterprises paying taxes in lieu of turning over profits for its revenue, most enterprise income has already been carried off, and little profit is left. This prevents full attainment of the goals of the tax-profit separation program, and makes impossible a true realization of economic returns from state-owned assets. We recommend: a) a scientific setting of rates for exchange taxes; and b) an appropriate lowering of income tax rates.

5) In carrying out the tax-profit separation program, we must act in an aggressive yet cautious manner. The stepping stone to lead the system of tax-profit separation from childhood to maturity undeniably resides in an accurate appraisal of the state's policy and the ability of enterprises to shoulder the burden of this reform. The experience of enterprises where it has been carried out on an experimental basis has shown that the system of tax-profit separation is the successor and the perfected version of the contract management responsibility system. We can experiment in a planned, selective manner in order to gain experience and knowledge, thereby strengthening our ability to adapt to changes. But in addition to taking aggressive action, we must also be quite cautious. This is because a large study carried out by the Economic Management Institute of the State Commission on the Restructuring of the Economic System indicates that of 594 enterprises in nine provinces (municipalities) and six different economic sectors, 294 (49.7 percent) are capable of bearing the burden of a tax-profit separation program, 225 (39.7 percent) are only capable of achieving profit retention but lack the ability to repay their loans, while 73 (12.3 percent) are not capable of either repaying their loans or achieving profit retention. This shows the limited extent to which the tax-profit separation program can be applied, and it tells us that enterprises lack sufficient strength to support this reform. It also shows that the tax-profit separation program requires further improvement and perfection.

The last ten years of reform have told us that no reform measure is perfect at its inception. In all cases, continual theoretical exploration is needed, and gradual perfection must be achieved through practice. We foresee that as the wheels of reform roll forward, the tax-profit separation program, which is continually being improved as experiments proceed, may blaze a new path for the optimization of distribution relations between the state and enterprises.

### Start Up Funds Might Trigger Inflation

91CE0084A Beijing JINRONG SHIBAO in Chinese  
16 Oct 90 p 3

[Article by Fu Wenling (0265 2429 0109)]

[Text] Control and correction of the economy over the last year or so have produced obvious effects, the greatest of which is reducing inflationary pressures. But we must note, at the same time, that a drop in the retail price index during the earlier phase was due largely to financial subsidies, that financial stability was due chiefly to growth in savings, and the continued growth of savings on a large scale depended on a high interest rate and guaranteed values. The rise of industrial production at a slow pace also hinged mainly on the continued availability of start-up funds for loans. But problems such as a soft market, inventory pile-up, rises in capital costs,

and diminished benefits are still encumbering our economic life, and many enterprises are wallowing in difficulties. Considered in depth, conditions related to financial indebtedness, credit expansion, irrationality in the economic structure and lowered economic benefits have never been resolved fundamentally, and the next task of correction remains very difficult.

Confronted with these problems, the government has adopted numerous approaches. For example, increasing the availability of loans, though the continued infusion of "start-up funds" into industry has not achieved predicted expectations completely. Also, broadening agency purchase of commodities as a way to keeping channels to the start-up markets open, but problems related to interest costs and fees born by purchasing agencies have not been resolved, so this approach is stagnating along without any results. Now, various localities are concentrating on efforts to clear up "triangular debts" so as to open up the "debt chain" gridlock, and to moderate the tight funding situation. Because the root cause of "debt chain" formation is not resolved, the problem of "clearing earlier debts and owing on later ones" is difficult to control. As the effects of these microeconomic measures are short of being ideal, some economists have proposed making start-up funds available. According to this approach, the present market is soft, and the chief reason for inventory pile-up is inadequate effective demand. To resolve this problem, we must start with capital construction, with technological reform, through capital investment and expanded demand. Only by these means can we overcome certain reduction in the economy at present.

I feel that under present conditions, a nationwide "fund start-up" is, without question, a repeat of the inflationary spiral. In the first place, from the latter half of 1988 when the "double tightening" policy was implemented, the state's control of financial credit was "tightening" without any "shrinking." Increases in financial outlays (deficit increasing at the same time), expansion of credit, and growth in consumer spending all exceeded the rate of economic growth. In the last two years, the money supply and bank loans which make up society's purchasing power both grew on a large scale. As this is effective demand, how can we say the demand is inadequate? Now, generally speaking, the consumer is "not buying, though the money is there," but the producer has no money to buy because his products are not sold. This is a situation that is a barrier in the course of buying and selling, and not a phenomenon of inadequate purchasing power.

Second, an important feature of correction measures set by the state is its control of capital construction investment and its power to cut down on overly large construction projects. Because of the leadership's determination in seeing this difficult task through, certain results have been obtained, though short of predicted goals. Some project items have now been curtailed, others continued on a stop-and-go manner, and still others that should be discontinued are still moving forward. At present, during

the linkup stage between the "Seven-Five" and "Eight-Five" plans, where grand blueprints have been drawn to cover each construction item, a slight letup will be disruptive enough to cause confusion.

Third, under circumstances where progress on revising the economic structure is slow, kinks in the contract system have not been resolved, regional blockades are quite serious, and property policies are difficult to implement in the midst of overall investment start-ups, it is difficult not to see problems of blind building and duplicate construction. Hence investment direction and efficiency cannot be assured.

Fourth, if we truly engage in investment start-ups on an overall scale, where will the capital come from? Financial investment has been expanded to limits, and no money is available for spending on new items. Of course, introduction of foreign investment is a possibility, but under present international conditions, this is not easy. With respect to most localities, this is not a last-minute move, which is not helpful at all. Some specialists suggest using budgeted foreign capital or raising money from the people. The amount of budgeted foreign capital is not small. Most of it has been earmarked for engineering projects in progress or for goods held in reserve. It is practically a special fund for specific uses affecting thousands of households, so that what can truly be used as currency capital mobilized for investment is limited. Floating bonds to borrow from the people is workable. But the financial market is not doing well at present, the financial and investment awareness of the people is quite limited, and where the capacity of an enterprise to bear up is very low, this approach does not necessarily resolve many problems. So the hope for using budgeted foreign capital and aggregate capital from the people to expand the capital base still falls, in the end, on the banks who will increase credit and loans, which will heighten the inflationary pressures.

Then, where is the solution? To resolve the economic problems facing us at present, I think we must analyze how this market softening came about. The primary cause is the accumulated inventory of such expensive consumer goods as television sets, refrigerators, videotape recorders, automobiles, woolen goods, etc. The survey data shows the inventory pile-up of these goods is due chiefly to duplicate construction, blind introduction of goods, and poor quality and high prices, to which is added excessive imports, thus creating a situation of production in excess of sales. When sales for these enterprises stagnate, large numbers of enterprises supplying them will also encounter difficulties. Concurrently, the pressure from a large batch of capital construction items being discontinued lead to inventory pile-up and delay in payment for goods at raw material supply houses and equipment plants, all of which caused difficulties for another group of enterprises. Next, the effect of last summer's disturbance and the imposed sanctions also caused difficulties in production and sales for a group of enterprises. All of this took place in a larger environment of tight money and tight credit. These

immediate problems requiring solution were never resolved in time, and "a choked to death" phenomenon appeared for a time when tightening was excessive. It was difficult to avoid a "domino" effect that brought on obstructions in the whole economic cycle to form the market fatigue noticed today. These phenomena explain that the problem appearing in the economy today is not inadequate demand, but irrationality in the economic structure. To resolve these problems requires appropriate treatment of the causes and the determination to correct and regulate the structure.

First, to limit, stop, or retool production of those goods where their production obviously exceeds their sales. If these enterprises cannot find a way to retool, it is better for them to be supported by the state than for them to continue producing goods that add to the accumulated inventory. With respect to some enterprises that produce high-priced goods of lesser quality that have no market, and those that are poorly managed and incurring heavy losses, they should be closed, sold, or forced to declare bankruptcy. To forestall any possible social unrest, the basic wages of state workers in these enterprises should be guaranteed at the same level. Those with financial difficulty may receive special loans from the treasury, upon recommendation by the bank, to be paid back within a set time frame. On this transition basis, it is possible to gradually move toward a socially secured system, for the present abnormal method of using bank credit to cover enterprise wages can no longer be maintained.

Second, to resolve the problem of inventory accumulation and debts owed on goods purchased, as noted among large and small-scale state-run enterprises, agencies responsible for wholesale distribution of goods and commodities should purchase and hold in reserve important materials of production, electrical equipment, electronic products, necessary consumer goods, and industrial products of good quality and value, particularly those described above that are part of state planning, to exert a "storage pond" regulatory effect. To resolve the problem of purchase funds, banks can provide specially authorized loans with interest subsidized by the treasury. The stagnant backup of these goods and commodities is temporary, and agencies responsible for the business of distribution and sales of goods should adopt various effective measures to expand sales.

Third, to basically resolve the problem of enterprise "debt chain," the "great transfer of accounts" method should be used by state-run enterprises owing on payments for goods purchased, to thoroughly clear their debts. Based on how these payments fell behind, adequate funds are to be provided by related agencies. That is, where funding provided is inadequate, and arrears arising from losses are not covered, funds are drawn from the treasury. Arrears arising from inadequate liquid capital available for production are given bank loans. At the same time, during the time debts are being cleared, funds for various enterprises and agencies, apart from that budgeted, should be controlled, to squeeze some

money out, to pay off funds owed. After various agency funds have been received, payments will first be made before any collections, in a way that will clear up arrears on payments for goods in one move. Funds for clearing up debts should be managed separately, placed in one account, and should not be used for any other purpose. In the future, should arrears in payment arise again, it should be regarded as normal business credit, to be cleared by the enterprise itself.

Fourth, to adjust and regulate the product structure, banks should increase their technological improvement loans to help develop new products, improve product quality, and increase product variety. Funds for this purpose should not be used for local construction, but used generally to improve productivity. To assure the turn-around of these funds, we must continue to implement the method of paying off credit loans before taxes.

Fifth, to support reorganization of the enterprise setup, enterprises must be assisted to adopt such arrangements as leasing, joint operation, merger, and sales etc., to carry out new recombinations of the production process. For enterprises, any transfer of the means of production should be rewarded, and loans owed banks should be assumed by the new operator of the assets.

#### People's Bank Official Discusses Money Supply

91CE0085A Beijing JINRONG SHIBAO in Chinese  
16 Oct 90 p 2

[Article by Zhou Zhengqing (0719 2973 1987): "We Must Do a Good Job of Supplying and Managing Funds in the Peak Demand Season"]

[Text] Since the beginning of this year, the overall economic situation has continued to improve. The various policies and measures connected with improvement and rectification have yielded good results. The imbalance between overall social demand and supply has been somewhat alleviated, inflation has been brought under control, and the rate of price rises has fallen steadily. In the area of agricultural production a good crop has been harvested; total grain production is expected to surpass its highest level in history. Industrial production has been rebounding every month, industrial structure has been somewhat readjusted, markets are recovering from their slump, exports are increasing, imports have been brought under control, the international balance of payments surplus has been expanded, and China's foreign exchange reserves have risen back up to their highest level in history.

Overall, the financial situation is relatively stable, as evidenced by three facts. 1) Efforts to withdraw currency from circulation have been more successful than in previous years. By the end of September this year, a net total of 5.6 billion yuan had been withdrawn from circulation, which is the most that has ever been withdrawn in any year during that period. 2) Every category of deposits has greatly increased. From January through August, the various deposit categories increased by a



total of 181.1 billion yuan, which was 108.3 billion more than the increase during the same period last year. Further breaking down this figure, urban savings deposits rose by 107.8 billion yuan and enterprise deposits rose by 37.4 billion yuan. These increases were, respectively, 32.6 billion and 62.0 billion yuan greater than those during the same period last year. 3) Banks have increased loans, supporting reasonable funds requirements created by stable economic development. The structure of new loans is more rational.

Since the beginning of this year, banks have continued to carry out the program of maintaining tight control over currency and credit. This program requires that banks "control total volume, readjust structure, assure that the needs of key projects are met, cut back on support of nonpriority projects, make regulatory adjustments in a timely manner, and increase economic benefits to the state." The banks have also acted in accordance with the State Council's requirements that "the program of tight control must not change, and priorities must be readjusted," by taking care to make readjustments at the proper time and to the proper degree in response to changes in the economic and financial situations. The banks have adopted a series of aggressive and flexible measures, and have achieved significant success. Principal among these measures are: 1) They have met the needs of economic development by increasing the amount of loans. 2) They have strengthened the timely adjustment and management of central bank funds. 3) They have lowered interest rates by an appropriate degree for bank deposits and loans. 4) They have reinstated the method of collection and acceptance; strengthened bank oversight of enterprise account settlement procedures; and carried out further rectification in the area of account settlement. 5) They have launched a comprehensive campaign to clear up debts owed for goods already delivered. Preliminary statistics indicate that from January through the end of August, a total of 75 billion yuan in debts were cleared up throughout the country. More than 10 billion yuan in debts have been cleared up since the beginning of September. 6) They have acted in a timely manner to arrange funds for the procurement of summer grain. 7) They have improved management of the size of loans in every region. Each of the measures listed above has played a positive role in spurring the recovery of the national economy, and in stabilizing society and the economy. However, it should be noted that many underlying problems in the economic life of the nation are intertwined with newly arisen conflicts associated with improvement and rectification, and they have not been fundamentally resolved. There are still three difficulties and problems associated with economic development: 1) The problem of slow market sales has yet to be fundamentally resolved. The problem of piled up inventories is still quite serious. 2) Economic benefits to the state from enterprise activities are still very poor. Profits for industrial enterprises are falling, more and more enterprises are losing money, total losses are increasing, and the state's fiscal difficulties are growing. 3) Progress in readjusting economic

structure is very slow. These problems are reflected in the financial sphere, most notably in the fact that credit funds do not circulate well and they yield relatively poor benefits. This situation has increased the pressure of demand for credit funds and money supply. This situation has come about for three main reasons. 1) Since the beginning of this year, even though bank loans have increased by a relatively large percentage, the cycle of production and circulation is not functioning smoothly for some enterprises. After bank funds are injected into such enterprises they become tied up in unsold inventory. 2) Although a large amount of currency was withdrawn from circulation in the first half of this year, currency began to be released into circulation at an increased rate in July. If more loans are made this year than are required to meet the needs of normal economic development, it will inevitably create problems for future efforts to stabilize currency. We should take this matter very seriously. 3) Demand for funds this year has been greater than in the past. For this reason, it will be very difficult to control money supply and total credit in the fourth quarter of this year. Leaders at every level of the banking system and comrades on the front line responsible for the planning and management of funds should be clearly aware of this situation. They should both take note of the fact that the national economy as a whole is developing in a healthy direction, and they must also be aware of the problems faced by the economy, as well as the difficulty and complexity of solving these problems. As we analyze the problem and study measures to deal with it, we absolutely must not look at the financial system or the issue of funds in isolation from everything else; rather, we must look at the economy as a whole. We must do a deeply penetrating analysis of the production, circulation, and allocation links, find the heart of the problem, coordinate all aspects, work to solve the root problem, concentrate our main effort on readjusting economic structure, and raise economic benefits.

#### **A Few Opinions on How To Do a Good Job of Managing Credit Funds in Periods of Peak Demand**

The main task involved in the management of credit funds this year in the peak demand season is to continue carrying out the programs and policies adopted in the meeting of heads of People's Bank branch offices throughout the country at the beginning of this year and in July. We must continue to act in accordance with the spirit of "not allowing the program of tight control to change, and properly readjusting priorities." At the same time as we strictly control the total volume of currency and credit, we must work hard on the supply and management of credit funds in the peak season, and stimulate coordinated development of the national economy. There are five things we must do to achieve this: 1) We must continue to exercise tight control of the total volume of currency and credit, stabilize the economy, and stabilize the financial situation. 2) We must concentrate our resources to support procurement of such major agricultural and sideline products as grain,

cotton, and oils, as well as export products. 3) We must continue to support industrial production aggressively, focus our support first of all on basic industries, particularly on energy, transportation, raw- and semi-finished materials, and some products for which there is strong market demand. 4) We must assist the commercial sector as well as supply and marketing cooperatives in their efforts to organize supplies of goods so state-run stores can play their role as the principal channel of circulation. 5) We must aggressively support key infrastructure and technology upgrade projects in order to facilitate readjustment of economic structure. To achieve these goals, there are seven principal measures which must be taken:

1. We must tightly control the amount of credit issued for the entire year.

Since the beginning of this year, credit has grown at a much faster rate than in previous years, and the task of controlling total volume of currency and credit for the entire year will be quite difficult. At the same time, bank deposits have also grown very quickly, so we will have to control currency and credit mainly by imposing limits on the size of loans. The headquarters of specialized banks and branch offices of the People's Bank must exercise rigorous control. No loan should exceed limits unless authorization has been obtained, and anyone who violates these limits should be held responsible for their actions. When determining the size of an individual loan, the headquarters of a specialized bank should base its decision primarily on the actual requirements of economic development in a given locality as well as its own supply of funds. At the same time, the bank must deliver and use funds in a timely and flexible manner. In order to prevent management of loan size from becoming too decentralized as a result of efforts at every level to retain the highest degree of discretionary authority possible, the headquarters of each specialized bank must strengthen its ability to regulate loan size in a flexible manner. Too much authority should not be handed down to the grassroots levels.

2. We must concentrate funds and assure that reasonable demands for procurement funds during the peak season are met.

In dealing with procurement funds for major agricultural and sideline products, each relevant department and bank must settle accounts and allocate funds early so that the problem of "white slips" [i.e.—IOU notes] will not occur as a result of bank problems in allocating and delivering funds. Banks in every locality must, under the leadership of the local government, work together with the relevant departments to further strengthen and perfect management of procurement funds for agricultural and sideline products. They should adhere to the principle of raising procurement funds via many different channels and earnestly carry out the responsibility systems of every relevant department. They absolutely must not ease up in their demands simply because they encounter objective difficulties.

Banks must assure the supply of procurement funds for grains, cotton, and oils. They must go by the state procurement plan and actively support efforts to secure procurement funds for major agricultural and sideline products such as wool and cashmere, pork, beef, mutton, sugar, flue-cured tobacco, and tea leaves. For other agricultural and sideline products, they must go by the principle of "determining loans on the basis of sales, and giving support to the extent that their supplies of funds allow." The bank headquarters emphasized once again that specially earmarked procurement funds must be used for their stated purpose, and that banks must impose necessary sanctions on anyone who juggles these funds around to suit their own purposes. With respect to the utilization of procurement funds, funds that should revert back to the fiscal and commercial departments from where they came should be used first, and then loans from specialized banks and the People's Bank should be used. After procurement funds have been expended, banks at every level must push commerce, supply, marketing, and grain departments to do a good job of allocating and marketing agricultural and sideline products in order to assure that procurement funds will revert back to the department in a timely manner.

In order to assure the supply and timely reversion of procurement funds for such agricultural and sideline products as grains, cotton, and oils, banks at every level must concentrate especially close on five tasks: 1) they must further perfect management of specialized households that produce grains, cotton, and oils; 2) in procuring grains, cotton, and oils, if the grassroots bank in the locality where procurement takes place is not able to provide enough loans, it can adopt the method of "issuing and processing a loan simultaneously"; 3) in order to exercise centralized management of loans for grains, cotton, and oils, in localities where conditions permit we can continue to carry out experimental work in which enterprises at the level of county or below that procure, process, or market grains, cotton, or oils open an account only with the Agricultural Bank, where it is managed; 4) banks must push grain departments to strengthen their operations and management in order to gradually resolve the problem of grain spoilage and procurement on account; 5) every local bank must work together with the relevant departments and enterprises to take stock of the amount of grain, cotton, and oils on hand. Where the amount of inventories does not correspond to the amount of funds tied up, they must investigate the cause and clear up the problem in a timely manner.

Recently, the State Council has decided to establish a national grain reserve system. Every bank at the local level must act in accordance with the spirit of the National Grain Reserve Work Conference, and they must earnestly implement its directives. The needed credit funds will be provided by the People's Bank, and interest will be paid from central government fiscal resources. The bank headquarters has already arranged the funding called for in the State Council's grain reserve plan, and concrete methods of management will be handed down later.

3. We must spur enterprises to readjust industrial structure and product mix, and to free up the circulation sector.

Every bank at every level must act in accordance with the requirements of the state industrial policy by adhering to the credit principle of "varying treatment according to the industry, and targeting certain industries for priority support." They must support the production of large- and medium-size key enterprises which are responsible for production tasks mandated by the state. They must also support the production of export goods. At the same time, they should give the necessary support for rational demands for funds posed by medium- and small-size enterprises which produce goods that are in high demand, foreign-invested enterprises, and township enterprises. Banks should also provide a proper degree of support to enterprises which are well run but have temporary marketing difficulties which have caused them to experience funds shortages. Banks should impose strict limitations on loans to enterprises that consume large quantities of energy, produce inferior goods which have no market, and which lose a lot of money.

We must support the efforts of commercial enterprises and enterprises which supply and market goods to revitalize markets and free up the circulation link.

In order to spur enterprises to readjust their product mix, banks must manage technology upgrade loans well and use them flexibly. They must work to get more technology upgrade loans repaid. Currently, the balance of technology upgrade loans nationwide stands at more than 100 billion yuan. If banks could get an extra ten percent of these loans paid back, they could loan out more than ten billion more yuan. Every locality must work hard to carry out the policy of getting more loans repaid in order to make more loans.

Every locality must step up work to review the size of new infrastructure loans which have recently been arranged and loan out all credit funds as soon as possible in order to provide timely support to key construction projects and to enterprise efforts to readjust their product mix.

4. Banks should establish special types of deposits for rural credit cooperatives.

In order to concentrate funds for use in key state loans, and to help resolve the problem of losses that are suffered by some rural credit cooperatives during the peak season as a result of relatively large increases in deposits, the headquarters of the People's Bank has decided to accept special five billion-yuan deposits from rural credit collectives. These deposits would come to term in one year, and interest rates would be set according to the principle of guaranteeing principal and giving very low interest rates. Interest would be disbursed in a unified manner by the headquarters, funds

would be allocated in a unified manner by headquarters, and in principle they would be returned to the local area to be used there.

5. Banks must continue to concentrate on clearing up overdue debts.

Banks at every level must build upon previous debt resolution work. They must act in accordance with directives handed down by the State Council's Debt Resolution Leadership Team and, under the leadership of local government, coordinate closely with relevant departments to attack the problem of overdue debts. In their work to clear up debts, it is necessary that banks and enterprises in every locality keep the larger interests of society as a whole in focus. They must overcome the tendency to protect narrow, parochial interests. They must not, in an effort to protect the interests of their own locality or work unit, only collect money while refusing to pay any out. At the same time, they must combine debt resolution work with efforts to jump start production and markets, and prevent enterprises which actually lack the ability to return loans from cobbling together the funds to pay off a loan only to turn right around to borrow again in order to get out of the hole they have put themselves in. They must coordinate with relevant departments to further strengthen enterprises' concepts of credit and the legal system, and preserve normal order in commodity trading. Banks must strictly enforce and preserve bookkeeping discipline. They must coordinate with relevant departments in charge to impose necessary economic sanctions upon those who deliberately appropriate other people's funds and postpone repayment of debts.

6. Banks must take further steps to revitalize the accommodation of funds.

Each bank must strengthen internal funds transfer and further improve call loan work. Every local branch of the People's Bank must take various types of measures to actively organize and guide call loan work.

7. Banks must strengthen management of cash and reduce the amount of cash released into circulation.

Banks at every level must take aggressive action and earnestly organize commodity and credit withdrawal. At the same time, they must strengthen cash management, strictly enforce regulations regarding cash management, and reduce the amount of unneeded money in circulation. They must also improve the transfer and allocation of funds during the peak season in order to assure that difficulties in making payment will not result from cash transfer problems within banks.

#### **Problems With Tight Money Policy, Spot Loans**

91CE0083A Beijing JINRONG SHIBAO [FINANCIAL TIMES] in Chinese 16 Oct 90 p 3

[Article by Kong Hui (1313 2547): "Tightening Objectives, Goals, and Spot Loans and Their Inclinations"]



[Text]Summary: In the red-hot inflation of late 1988, banks once again tightened credit. The following year the price index dropped steadily. One year later China's inflation rate has already fallen rapidly, from 30 percent at the beginning of the tightening to three or four percent today. Although inflation has been stopped, China's economic situation is still grim. The root cause is the series of problems that China has encountered in implementing its monetary policy.

### Perspective on Policy Objectives

The objective of the tight money policy undoubtedly was to stabilize prices. Because of the high degree of contradiction in policy objectives, the effect of the policy was rather complicated. From 1988 through 1990, price levels followed a saddle-shaped curve. As prices neared their peak at the end of 1988, the tight money policy was implemented. In February 1989, the national wholesale price index reached its peak. After that it fell each month until the first quarter of this year, when price levels were essentially on a par with the first quarter of 1987 (three to four percent growth). From all appearances, this monetary policy was rather successful. However, from a comparative analysis of objectives, the objective of price stabilization was accompanied by negative economic growth.

Generally speaking, high growth in the nominal money supply (a relatively high inflation rate) is identical with high nominal economic growth. Low growth of the money supply (a low inflation rate) accompanies low nominal economic growth. Choosing between a high or low nominal money supply is the key to the actual growth of the economy. It is more suitable for developing countries to select a high nominal monetary growth rate. In recent years, when China's economy was overheating, high nominal growth of the money supply brought high nominal economic growth. After deducting nominal growth, the actual value of economic growth still would not be considered low. On the other hand, a relatively low rate of monetary growth translated into negative growth or slow growth (one to two percent).

Inflation definitely is totally detrimental, but violent price fluctuations bring on even more future trouble, because large fluctuations in prices inevitably create such problems as a slumping market, excessively slow industrial growth, and insufficient economic results. Slumps and slowdowns in sales certainly are beneficial to the consumer, but they are no doubt life threatening to producers and managers. From the perspective of the enterprise and the state, a market slump is far from the rosy picture that sales are.

There is no theoretical or practical proof that China's price indices should be maintained at three to four percent. In the economic takeoff stage, controlling price indices at around 10 percent is sufficient. The Central Bank is responsible for stabilizing prices, but stabilizing prices is certainly not lowering prices. Rather, they should maintain prices at a certain level and not let them

fluctuate greatly. The Central Bank must not only avoid rather large price rises, but at the same time they should control large price declines even more strictly.

### Tightening Up Spot Loans—Why We Should "Initiate But Not Stimulate"

Last year, after the slide in economic growth began, the Central Bank again provided start-up funds to help the national economy realize normal growth. So, why, with start-up funds pouring in, was the market slump not resolved? This has to do with spot loans. Spot loans attempted to stimulate the overall situation by stimulating individual key enterprises. It also attempted to alleviate the overall contradiction by stimulating "key" suppliers. But, the various sectors of the national economy are intertwined and mutually dependent. If one segment (one department) obtains credit funds while the funds of the vast majority of other enterprises are still tightly controlled, the flow of the national economy can in no way circulate normally. If they give an automobile plant a loan, but the units buying automobiles have no funds, then the automobiles will only become overstocked. If they give a cotton mill a loan and do not give the textile mill a loan, the yarn will only become overstocked at the cotton mill. Herein lies the problem with spot loans.

Initiating the granting of funds actually is still initiating supply or initiating the purchases of commercial departments. The present contradiction has mainly shifted to demand. Initiating supply can only prolong or aggravate the market slump and the present situation in which we initiate supply but do not stimulate the market.

We do not deny China's long-standing contradiction of inadequate overall supplies, but presently it is demand that is inadequate. Overstocking of nine million color television sets nationwide is proof of this. Relatively stringent tightening of the money supply when demand is inflated can give rise to a short-term surplus of supplies during a long-term deficiency. Relevant information suggests that China's rate of urban distribution of color televisions is 75 percent, while the rural market is still very extensive. The trend should be that the supply of color televisions does not meet the demand, but currently there is a surplus of the sets.

The present monetary policy should boldly change from initiating supply to spurring demand by again raising the price indices to around 10 percent. Consumers can bear this price level and the market definitely could shift from its slump to becoming active.

### Credit Policy Inclinations—Why Is Agriculture "Not Invested In?"

After 1984, Chinese agriculture fluctuated and did not progress. When the tight money policy was implemented, a credit policy slanted towards agriculture was specifically proposed. When it was enacted the results proved agricultural loans were empty and not slanted,

and that the long-term good aspirations for agricultural investment were a long way from reality.

In its long history, Chinese agriculture has had two major characteristics: one is land-holding and the other is tenancy. The amount of land occupied by land-owning peasants has been rather limited and does not require more investment. Tenant farming is based on the premise of a feudal landlord occupying a large amount of land. It would appear that land concentration is done to improve the tools of production. Increased investment provided the possibility. But backward tools of production are still based on a production relationship that is backward. Progressive production management should break up the feudal land relationship. China's feudal system was not permitted to advance toward capitalism. Thus it has been said that the obstacle to Chinese agricultural investment has a historical cause.

Implementing a contract responsibility system linked to production is like implementing land-holding after land equalization. It is an extension of the means of agricultural production that China has had for several thousand years, and is still an impediment to agricultural investment.

There are three main departments for agricultural investment: 1) national and local finances, 2) agricultural banks and credit institutions, and 3) peasant households. Investments by agricultural banks mainly serve agriculture in the pre-production and post-production periods, providing funds for purchases and loans for agricultural production materials departments. Credit institutions mainly provide peasant households with loans for production costs. Rural financial organizations mainly provide short-term operating fund loans. Operating fund loans serve to maintain simple reproduction and are generally unable to facilitate extensive reproduction. In recent years national finances have been used to reduce agricultural expenses. Loans from rural finance departments also predominantly focus on loaning operating funds. This is an important reason why Chinese agriculture has fluctuated and has not progressed since 1984.

Agricultural development depends on increased fixed asset investment for such things as large-scale farm implement purchases and construction of irrigation facilities. State finances are presently in great difficulty and increased agricultural investment suffers from financial restrictions. Agricultural banks encounter all sorts of restrictions in granting developmental loans, and a large portion of developmental loans actually are simply not granted. Credit institutions and peasant households are incapable of investing large sums over a long period. The slanted agricultural policy appears to have become merely well-meant intentions.

#### **Policy Goals— The After Effects of Adjusting Interest Rates Down**

Relatively stringent tightening is generally a combination of controlling volume with controlling interest rates, and raising interest rates while tightening the

money supply. From the perspective of the current state of the national economy, it is essential to lower interest rates, but we cannot overestimate the effects of such an adjustment.

After the recent reduction in interest rates, interest rates on savings deposits and on loans fell an average of 1.7 percentage points, with interest on savings declining more than the interest rate on loans. The disparity between the interest rates on savings deposits and loans widened; by earning less interest on their savings deposits, depositors assumed the burden which was created when enterprises made lower interest payments on their loans. Adjustments in interest rates can only serve to redistribute "surplus labor." Renewed cuts in these rates certainly can neither eliminate the market slump nor the deficient results in the enterprise economy.

The market did not rebound, and new enterprise investment took the form of new idle funds. Profits on enterprise investments were still lower than interest rates after the adjustment. The reduction in interest rates could not spur investment, and prices fell far more than interest rates. It is very difficult to effectively stimulate consumption by manipulating interest rates.

## **MINERAL RESOURCES**

### **Shaanxi Province Now Major Gold Producer**

OW1711085390 Beijing XINHUA in English  
0820 GMT 17 Nov 90

[Text] Xian, November 17 (XINHUA)—Shaanxi Province in northwest China has become one of the main gold producers in China.

In the past dozen years of economic reform gold production in the province developed at a rapid rate.

According to statistics, in 1978 Shaanxi had only one gold mine with an annual production of a mere 206 ounces. But by 1989 the number of gold mines and enterprises had reached 24.

Shaanxi has rich resources of gold especially in the areas of Xiaoqinling, and the upper reaches of the Hanjiang and Jialing Rivers.

Tongguan County, the biggest gold producer in the province, produced 55,980 ounces of gold last year.

## **INDUSTRY**

### **Readjustment of Industrial Structure Viewed**

HK1611060190 Beijing JINGJI GUANLI in Chinese  
No 8, 8 Aug 90 pp 7-9

[Article by Zhang Qixian (1728 1142 0341): "Understanding the Readjustment of China's Industrial Structure"—edited by Lu Xiaosheng (4151 1420 3932)]

[Text]

1

China's industrial production encountered many problems in 1989. These problems were: Serious shortage of coal and electricity in the first quarter, serious shortage of funds in the second quarter, and sluggish sales in the third and fourth quarters. In view of this situation, various areas and departments around the country adopted a series of measures to resolutely and thoroughly implement the policy of improving the economic environment and rectifying the economic order, which was promulgated by the central authorities, and to readjust the industrial structure in a rational manner. However, the readjustment of the industrial structure is a long-term, difficult task. We should realistically analyze the achievements realized over the last year, affirming the achievements and pointing out the shortcomings. This will be of help in carrying out our tasks in future. 1. Improvement in the Internal Industrial Structure

Since the establishment of the PRC, China has realized remarkable achievements in economic development. However, the desire to obtain immediate results, the phenomena of an excessively large-scale of construction and unbalanced economic ratios and relations, and other problems also exist. In particular, in recent years, the speed of industrial development has been too high, and has exceeded the country's economic capacity. As a result, there have been shortages of energy, raw materials, funds, foreign exchange, transportation facilities and so on. From 1981 to 1988, the average annual growth in China's gross industrial output value was 13.7 percent. However, the average annual production growth rates of crude oil, raw coal, steel, steel products, and power generation were only 3.3 to 7.7 percent, and thus they lagged behind the growth in industrial production. This situation caused the existing contradictions in the industrial structure to become more acute. The excessively high industrial growth rate also intensified the contradiction between excessive demand for industrial loans on the one hand and a shortage of funds and foreign exchange on the other hand. Apart from these factors, the excessively rapid growth of the processing industry and the relative backwardness of the mining and raw materials industries resulted in a shortage of industrial raw materials. Consequently, the price of raw materials increased, and economic benefits decreased.

In 1989, as a result of the implementation of the readjustment policy and the strengthening of macroeconomic regulation and control, the industrial growth rate, which had been very high, decreased, and the situation in which the development of basic industries did not correspond with the development of the national economy saw improvement. The national industrial growth rate decreased from 17.7 percent in 1988 to 6.8 percent in 1989, a reduction of 10.9 percent. With the reduction in the growth rate of basic industries and the checking of consumption demand, the production of machinery, electronic products, and light industrial products was brought under control. Further, the development of the processing industry also slowed down. In this reduction,

the growth of the machine-building industry decreased from 20 percent in 1988 to 3.8 percent, that of the electronics industry decreased from 39 percent to 4.9 percent, and that of township and town industries decreased from 35 percent to 13.1 percent. Since the state had also adopted a policy favorable to and emphasizing basic industries such as the energy industry and raw materials industry, the output growth of these industries exceeded that of the machine-building industry, the electronics industry, light industry and other processing industries. As a result, growth in the national gross output of the energy industry increased from 4.8 percent in 1988 to 6.6 percent. Moreover, the ratio between the growth in the gross value of agriculture and industrial output on the one hand and the growth in the output of primary energy sources, which include coal, hydroelectric power, oil, and nuclear power, on the other hand, increased from 1:0.29 to about 1:0.7. Within this, the ratio between the growth in the gross value of agricultural and industrial output and that of the output of the electric power industry increased from 1:0.57 to about 1:1, while the ratio between the growth of industrial output and the growth of rail freight volume increased from 1:0.15 to 1:0.65. Moreover, some acute contradictions in the production sphere were alleviated, and the ratio between basic industries and the processing industry saw a certain improvement. 2. Improvement in the Industrial Product Mix

The industrial product mix is readjusted every year. Changes in the external environment and a weak market have meant that more attention has been paid to this work. Also, the readjustment of the product mix has been regarded as a fundamental measure for shaking free of difficult situations and achieving development. In readjusting the product mix, various areas in the country have increased the production of some products while at the same time decreasing the production of others, and promoted the production of some products while restraining the production of others, in accordance with the state's industrial policy and the changes in market demand. In addition, they have also positively improved the product mix, readjusted the ratio between high-quality products and low-quality products, improved existing products, increased the variety of products, and improved product quality. In respect of specific methods of readjusting the product mix, in early 1989, various areas and departments around the country, in the light of their tasks of increasing production and practicing economy, classified products into three categories: products whose production was supported; products whose production was restricted; and products whose production was prohibited. On this basis, the supply of raw materials, funds, foreign exchange, and transportation facilities for the production of these products was given preferential consideration or restricted. Moreover, the production of the products with a ready market was vigorously increased, while the production of those for which there was little consumer demand, which consumed much energy, or which were of poor quality was either stopped or restricted. After this, products were



again designated as being either in short supply or over-supply, were further examined, and the production of superior products was promoted, while the production of low-quality products was restricted. The scope of production increase was then firmly stipulated. These measures were intended to ensure that the limited funds and materials were used in the most appropriate ways, and to vigorously develop the production of key products which involve advanced skill and technology, but which consume little energy and materials, products which could be coordinated with the state's construction projects, means of production required for agricultural use, people's daily necessities, products which could earn foreign exchange through export, basic industrial chemicals, steel products which were in short supply, nonferrous metals, and so on. On the other hand, the production of products which caused serious wastage of resources, products which induced excessive consumption and consumed much energy, and consumption goods which required raw materials which were in short supply was resolutely restricted or phased out. In view of the situation of insufficient supply of raw cotton and raw silk, the textile industry made efforts to mix fibers, develop new textiles, develop imitations and make production modifications. It also grasped the development and utilization of noncotton fabrics and special fabrics. As a result, several hundred new designs and varieties were developed. Since the state's implementation of a retrenchment policy, the machine-building industry and the electronics industry have implemented structural readjustment, cut the production of products with sluggish sales, increased the production of products with good sales, and grasped the work of digesting and absorbing advanced imported products. Thereby, a number of new products which now enjoy substantial market demand were developed, and a certain growth in the machine-building industry was thereby maintained. Although the metallurgical industry did not achieve substantial growth in steel production over the year, the production of seamless steel pipes, which were in short supply, increased by 7.2 percent, that of medium-thick and thick steel plate increased by 8.6 percent, and that of steel wire increased by 10.6 percent. These growth rates were all higher than the growth rate of 3.6 percent achieved by the steel industry. In a situation of serious shortage of electricity, energy, raw materials, transportation facilities, and funds, the chemical industry placed stress on ensuring the production of the chemical products required for agricultural production, and basic industrial chemicals. The situation of market shortage of these products was thus improved. In order to ensure effective supply, light industry paid special attention to and gave key support to the production of people's daily necessities and miscellaneous commodities. As a result, commodity price stability and social stability were maintained.

In 1989, China's export mix was further improved: The proportion of primary product exports decreased, while the proportion of exports of extensively processed products increased. At the end of November 1989, the

proportion of processed products in overall exports increased to 71.6 percent. In the exports of textile products, the proportion of exports of the three main products—garments, textile products for interior decorating, and textile products for industrial uses—exceeded 60 percent of total textile exports for the first time. In the exports of machinery products, the exports of specialized machinery, audiovisual equipment, electrical power equipment, road vehicles, scientific instruments, and so on exceeded the average growth rate of the exports of machinery and equipment. The exports of the products produced by the three kinds of partially or wholly foreign-owned enterprises in the whole country increased from \$1.746 billion in 1988 to \$3.59 billion in 1989.

It should be stated that the improvement of the export mix was a result of the readjustment of the industrial product mix, and it reflected the improvement of the industrial product mix. 3. Improvement in the Structure of Enterprises

High industrial growth rates have been achieved in the last two years. In particular, township and town enterprises achieved a growth rate more than 100 percent higher than the national industrial growth rate. In 1987, the gross national industrial output value was 14.6 percent higher than that in the preceding year, while the growth rate achieved by township and town industries was 32.5 percent. Some township and town industries provided direct services to agriculture, and promoted agricultural development; some of them coordinated with large enterprises, and became indispensable satellite factories of large enterprises; while some earned foreign exchange through exports. Their positive role is not open to doubt. However, the development of township and town enterprises was too fast. Consequently, an acute problem whereby they competed with large and medium-sized whole people-owned enterprises for energy, raw materials, and transportation facilities arose. In 1989, when various areas around the country were improving the economic environment and rectifying the economic order, on the one hand, in a gradual way, they shut down some of these enterprises, suspended their operations, amalgamated them with other enterprises, or changed their product lines. On the other hand, the areas also allowed such enterprises to be eliminated through competition. Some whole people-owned enterprises which consumed much energy produced poor quality products and products without a ready market, and those which had incurred huge losses were merged with other enterprises, or their operations were shifted or suspended. Thereby, in a planned manner, optimal combination of the means of production was achieved. In addition, they also adopted a supportive policy to help key and backbone state-owned enterprises to solve the problems of energy and funds supply and other problems, in accordance with the priorities set by the industrial policy. Consequently, production saw development.

Through the consolidation and readjustment of enterprises, a number of township and town enterprises and

some whole people-owned enterprises which were short of raw materials, consumed much energy, and achieved poor economic returns, were shut down, or had their operations suspended. The internal management of those enterprises which managed to survive in the course of competition had improved to a certain extent. In general, the industrial enterprise structure throughout the whole country is being readjusted in the direction of optimization.

## II

The readjustment of the industrial structure is an important element of the policy of improving the economic environment and rectifying the economic order, and of the policy of deepening reform. This adjustment has just begun. At present, the shortage of some types of energy, raw materials, and transportation facilities has seen some alleviation as a result of the low production growth rate experienced from the second half of last year. However, the contradictions in the industrial structure, such as the weak foundation of basic industries, the excessive capacity of the processing industry, products not being able to meet rapid changes in market demand, the poor quality of enterprises, and other such problems have not been fundamentally solved. Such structural contradictions are the root of some current difficulties and problems which have emerged in the course of industrial production. For instance, the cotton spinning industry and the textile industry throughout the whole country are currently short of cotton. The production capacity of the textile industry is not fully utilized, while many large textile mills are facing the possibility of having to suspend operations. These problems have been caused by a rapid increase in demand for cotton, and a national insufficiency of cotton supply. These two factors, however, are results of the excessively rapid development of the textile processing enterprises in recent years. In particular, they result from the fact that small cotton mills have been established blindly in these years. The shortage of oil products extends throughout the whole country. In a situation of low economic growth, some areas have put controls and constraints on the use of electricity during the peak hours of electricity consumption. In the metallurgical industry, the shortage of pig iron has produced an imbalance in steel production, and growth in the production of steel products has thus been constrained. In addition, due to a shortage of natural gas, some large chemical fertilizer plants have been unable to fully utilize their production capacity. All these phenomena illustrate that the energy industry, the mining industry, and other basic industries have failed to meet the needs of production development. Another problem is that, as they are affected by the prices of commodities, enterprises are now unwilling to produce products with low profit margins or products which will incur losses, even though such products are urgently needed in the market. As a result, there have been shortages of some miscellaneous commodities for daily use, and metal rails required for railway construction and steel required for supporting and protecting mines

has been in tight supply. These facts prove not only that the contradictions of the industrial structure require further resolution, but also that, as the adjustment of the industrial structure will involve the optimization of the investment structure and the reform of the financial system, the price system, and other aspects, it will be a long-term, difficult task. Viewed from the present actual situation, in order to further promote rational readjustment of the industrial structure, enterprise structure, and product mix, the following tasks should be grasped:

1. The industrial policy promulgated by the State Council should be seriously implemented, and the focus of the state's basic construction projects and investment in technological renovation projects should be oriented in a direction favoring the energy, transportation, and basic raw materials industries. In addition, "bottleneck" industries should be improved, while the energy industry and the production of raw materials should be promoted. At the same time, new construction projects should be strictly examined before approval is granted, the development of general processing industries should be controlled, and the industrial structure should be readjusted for increasing output.
2. Under the present situation of funds shortage, bank loans should be granted only in accordance with the requirements of the industrial policy, and priority should be given to the enterprises and the products which the state has stipulated are to be supported. Loans should not be issued for the production of products which have been prohibited, and credit given in the past should be gradually recovered. An inclined policy which provides both support and constraints should be implemented in the railway, transportation, and power generation industries, and in the areas of materials, goods supply, taxation, and so on.
3. Enterprises which should be eliminated at the present stage should be resolutely readjusted, and handled in a sound and appropriate way. Moreover, the practice of merging enterprises or urging enterprises to change their product lines should be adopted in preference to that of shutting down or suspending the operations of enterprises. Enterprises should be helped to achieve optimal combination of the means of production, to develop new products, and to provide better lives for their staff and workers, as these measures will assist in maintaining social stability.
4. Industrial departments should adapt to changes in consumption demands, accelerate the readjustment of the product mix, and increase the production of products with new designs, good quality, comprehensive functions, and reasonable price.
5. The state should formulate favorable policies for helping enterprises to develop new products and to adjust their product mix. Banks could issue loans to enterprises at low interest rates or at discounted rates for developing new products. In addition, medium and small enterprises which are short of production development funds should be allowed to retain one to two

percent of their sales income as a research and development fund for new products. At present, in readjusting their product mix, enterprises must engage in transformation of their technologies and equipment. This, however, is restricted in terms of the scale of technical transformation. As a result, enthusiasm in the enterprises has been affected. In view of this situation, the controls on the scale of technological renovation should be appropriately relaxed.

6. The unreasonable price of some commodities should be readjusted to promote the readjustment of the product mix.

7. The scientific and strict nature of state plans should be enhanced. In addition, the state plans for the production and distribution of the products which are subject to unified distribution should be strictly carried out. There has been a serious shortage of cotton this year. Therefore, production by large cotton mills should be ensured first; priority should not be given to small mills; and small mills should not push out the large ones.

#### Current Status of Industrial Modernization

91CE0074A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 40, 1 Oct 90  
pp 3-4

[Article by Li Dibin (2621 6611 2430) and Deng Zehui (6772 3419 6540): "China's Industry Strides Toward Modernization At a Greater Speed"]

[Text] October 1990 is the 41st anniversary of the founding of the People's Republic of China as well as the first golden autumn of the 1990's. China has only 10 critical years left to fulfill the strategic goal of quadrupling the gross value of industrial and agricultural output by the end of this century. Reviewing the past and future course of China's industrial modernization, people have discovered with joy that after 41 years of brave advance, China's economy has gained great strength and the speed of industrial modernization is increasing. The great goal China set will definitely be achieved.

There have been many difficulties and setbacks in the march of China's industry toward modernization. An economist used the following expressions: "It crawled in the first 30 years (1949 to 1978) and ran in the last 11 years (1979 to 1990)."

In 1957 China fulfilled its First 5-Year Plan, thus opening the curtain of industrial modernization. Then 156 key engineering projects later became the important pillar of industry in the republic. But this course had several setbacks. "The Great Cultural Revolution" in particular set the course of modernization back significantly. After the national policy of reform and opening up was adopted, the speed of industrial advance toward modernization increased substantially. Chinese industry has formed a strong lineup:

—Five hundred thousand industrial enterprises (at and above the township level) are growing and expanding. Latest data show that the number of large- and medium-sized enterprises has reached 12,272. Except for the nuclear power industry which is now being built, China has all of the 500-plus categories of industry commonly listed in other countries. Chinese industry is basically able to equip independently and completely major industries such as large mines, power stations, and metallurgical, petroleum, chemical, auto, and ship-building plants.

—In the high-tech industry such as electronics and space, China has no lack of projects nearing the advanced world level.

—In production capacity, China has several indexes that rank among the world's highest: The annual cotton cloth output is 18.6 billion meters, the highest in the world; raw coal 1.04 billion tons, the highest; crude oil 137 million tons, fifth place; power output 580 billion kw, fourth place; steel 612.4 billion tons, fourth place; and cement 207 million tons, the highest.

In 1964 during the drafting of the "government report" of the Third National People's Congress, Chairman Mao Zedong said: I have an idea that the development of the national economy may be carried out in two steps. The first step is to use 15 years to establish an independent and relatively complete industrial and national economic systems. The second step is to strive to fulfill within this century the modernization of agriculture, industry, national defense, and science and technology. A quarter of this century has gone by. China can proudly announce that a relatively complete industrial system has been established and that the first light of dawn has shined on the modernization of industry.

The level of industrial modernization in a nation is always marked by the position and role of large enterprises in the national economy. Chinese industry moving toward modernization is also marked by the rapid rising of a large number of large- and medium-sized enterprise groups.

Giving priority to developing large enterprises has become the common understanding of industrialization and developing countries. In the past 41 years, China invested overall more than 2000 billion yuan in the fixed assets of enterprises owned by the whole people, and built over 4,000 large- and medium-sized projects. Since the reform and opening up, the tempo in the construction of modernized large enterprises has increased substantially. Beginning in 1982, each year China picks out a number of backbone projects from national capital construction projects to be carried out as key construction projects. During the period of more than eight years, the scale of the total investment reached 300 billion yuan, and the following projects were completed: 153 large- and medium-sized key energy projects including the Gezhou Dam Hydroelectric station and the Pingsuo Open-cut Coal Mine; 88 large- and medium-sized key raw materials projects including Shanghai's Baotou Iron



and Steel Company and Daqing, Qilu, Yangzi's three major ethylene, and Jidong cement plants; and a large number of transportation, energy, communication, and high-tech products. The completion of these large- and medium-sized key projects has markedly increased China's economic strength and significantly raised the level of industrial modernization. These modernized large enterprises play a decisive role in the national economy and have become the main structure of the entire building of industrial modernization.

The faster speed of key construction projects gave impetus to the rise of a large number of high-tech industries representing the advanced trends of the world and the latter in turn quickened the tempo in the modernization of Chinese industry. Since the reform and opening up, China's high-tech industries such as electronics, electrical machinery, synthetic materials, chemical fiber, aerospace, and instrument and meter, have developed very rapidly. For instance, the rating of the electrical machinery and device manufacturing industry among all industries rose from tenth place in 1980 to seventh and its ratio increased from 3.7 percent to 4.9. The electronics and communications equipment manufacturing industry rose from 19th in 1980 to 10th in 1989 and its ratio increased from 2.9 percent to 3.2.

About 10 years ago, electronic computers were considered "rare things" in Mainland China. Today, they are "ordinary objects" in many offices of China. About a third of large- and medium-sized enterprises in China use computers to assist management. Surveys show that the computer application and popularity rate has reached 90 percent in large- and medium-sized enterprises in Beijing and Shanghai.

The launch of the communications satellite "Asian No 1" and the weather satellite "Weather No 2" since the beginning of 1990 indicates that China has entered the advanced rank of aerospace technology in the world.

**If the high-tech industry is the carrier for the modernization of industry, the development and utilization of new technology and new products will be the wheels of this carrier.**

Since the beginning of the 1980's, China has made over 6,800 major scientific and technological achievements. Over 3,500 of them received the national scientific and technological progress award. About half of them reached the advanced international levels of the late 1970's and the early 1980's. All of them have been used in agricultural production and the profits they generated amounted to 40 billion yuan.

The output value rate of new products of industrial enterprises in China has increased from 3.3 percent in 1984 to the current seven percent. The state and the provincial and municipal levels began in 1988 to draw up trial-production plans for key new products. Currently about 3,000 such plans can be steadily carried out each year. A third of which can reach advanced international levels, about 10 percent can be exported to earn foreign

exchange, and 44 percent can be substituted for imported goods. In the past 11 years, the machine-building industry developed a total of 10,000-plus new products, and the light industry developed over 320,000 new varieties. China's household electrical appliances such as television sets, refrigerators, and electrical fans are close to and have reached international standards. The situation in which industrial products remained the same for several decades has changed substantially.

Importing advanced technologies from abroad and carrying out large-scale technological transformation is an important way to "replace the old with the new" and quickly update China's industrial products.

Since 1981, China has used over \$27 billion for the import of foreign technology. Of which, 72 percent are hardware items including machinery, electronic equipment and production lines and 28 percent are software items including designing, manufacturing, and production technologies. Small- and medium-sized enterprises in all localities have imported over 10,000 technological items and used over \$12 billion in foreign exchange. The accumulative state investment in technological transformation has exceeded 400 billion yuan, more than double that of the amount invested in this field in the first 30 years after the founding of the PRC. The total number of technological projects arranged to be carried out exceeded 400,000. Now over 90 percent of such projects have been completed.

**The economic strength of a nation is determined by the level of its industrial modernization. To stand on its own feet among the forest of world powers, China has no choice but to do all it can to catch up and fulfill industrial modernization in an all-round way.**

Generally speaking, China's industrial production is still at the stage of extensive operation, relying mainly on the expansion of production scale and the excessive consumption of energy and natural resources to obtain the high-speed growth in industrial production. Experts in related fields think that because China's original industrial basis was weak, stressing speed and scale to lay a solid foundation for China's industrialization was in step with the national conditions during a certain period of historical development. But if this kind of extensive operation continues for a long period of time, it will inevitably result in high energy consumption and low efficiency. According to a rough estimate, the consumption of energy (calculated based on standard coal) for every \$100 million of national income in China is 325,000 tons, 1.3 to 6-fold higher than in industrialized nations in the West. It is impossible for China to continue on the road of extensive operation. Under the condition that the industry has taken on a considerable scale, we should rely on scientific and technological progress and modernized management and resolutely switch from extensive operation to intensive operation and to the type of operation that stresses quality and efficiency, uses advanced science and technology, and saves natural resources. This has become the only way

for China to carry out its industrial modernization. The key to bringing about this change is to encourage enterprises' technological progress. A research personnel of the State Planning Commission quipped: "Technological progress should be taken as seriously as eating."

In March 1990, the Sixth National Work Conference on the Technological Progress of Enterprises proposed that we concentrate our energies and implement the slant policy to do a good job in a group of backbone enterprises, "hot-selling products," and key technologies. It proposed that we use these enterprises, products, and technologies as the main force behind the technological progress of the Eighth Five-year Plan and use it to bring along the development of a large number of related enterprises, products, and technologies, striving to reach the international level of the late 1980's and the early 1990's in the year of 1995. On this basis, we should then work hard for five years and put some enterprises in the advanced rank of the world in the year of 2000.

As far as many traditional industries in China are concerned, using electronic technology to transform and infiltrate to accelerate their development is a promising road. In September 1990, the State Planning Commission and the Ministry of Machine-building and Electronics decided to exercise unified management over the entire machine-building and electronics industry. This was a major strategic move for exactly this same purpose.

### **Textile Industry Completes Basic Structural Readjustment**

9ICE0090B Beijing JINGJI RIBAO in Chinese  
3 Oct 90 p 1

[By Li Tiezheng (2621 6993 6927)]

[Text] Spearheaded by new technology and new processes, China's textile industry has basically completed the readjustment of its product mix, with multiple processed and complex processed goods and other finished products now making up a larger portion of all output. According to customs statistics, apparel exports amounted to \$3.368 million in the first seven months of this year, up 15.69 percent over the same period last year, or 48.36 percent of the nation's total textile exports, an increase of four percent over the corresponding period a year ago.

The product mix of the textile industry was traditionally dominated by semi-finished products. In an effort to break with that pattern, the industry spent the Seventh Five-Year Plan homing in on the "four new technologies," namely new chemical fiber production technology, new spinning technology, new weaving technology, and new dyeing processing technology, and used the technology thus acquired to concentrate on breaking new ground in or developing 12 major technologies, including the open-end spinning machine, imitation chemical-fiber woolen fabric and imitation silk technology, new knitting technology and equipment, and

new apparel processing technology. These technologies have been developed on schedule, achieving progress of a breakthrough nature and bringing the number of new textile machines to over 1,500, including 200 that match international standards of the late 1970's and early 1980's.

The application of new technology has created a host of new products hitherto unknown in China. Imitation wool, imitation silk, imitation flax, genuine silk knitwear, gao mi yu (7559 1378 5038) corduroy, denim, lightweight cashmere sweaters, yak cloth for making overcoats, sweaters with a high rabbit hair content, and high-count lightweight ramie fabrics have enriched both the domestic and the international markets as well as supplying the apparel industry with a diverse range of fabrics.

Because of the diverse fabric offerings, the textile industry's three major types of finished products—apparel, fabrics, and industrial textiles—have made substantial headway in output, design, variety, pattern, and quality. Nowadays not only can China process Western-style suits and fashions that are internationally competitive and produce whole sets of upscale decorative fabrics and multi-function decorative fabrics that are flame-retardant, opaque, heat-insulating, heat-retaining, electrically-conductive, pollution-resistant, and anti-static, but it can also supply the industrial sector with super-tension faucet belts, high-tensile high-modulus tire curtains, cables and ropes, acupuncture and cu rong paper-making woolen cloth, and high-power battery coating, among other things. Domestic and international market channels have been broadened and export varieties have been diversified.

### **Heilongjiang GVIO Rebounds in September**

9IP30026A Harbin HEILONGJIANG RIBAO  
in Chinese 7 Oct 90 p 1

[Summary] According to statistics compiled by the provincial statistical bureau, Heilongjiang's industrial output value clearly rebounded in September. The gross value of industrial output (GVIO) amounted to 4 billion yuan, an increase of 2.6 percent from the same month last year.

However, because of the insufficient output in the previous eight months, the cumulative GVIO from January to September, 35 billion yuan, is still 1.7 percent lower than the corresponding period last year.

The gross output value of light industry in September was 2.05 billion yuan, an increase of 8.1 percent from September of 1989. The production of televisions, chemical fiber, cotton-blend fabric, silk, wool, tobacco, and other light industrial and textile products all increased significantly.

In September, eight of the province's 14 prefectures and cities registered increases in industrial output value.

compared with four in August. Harbin, Qiqihar, and Jiamusi realized 5.2, 7.3, and 1.9 percent growth, respectively.

The 15 state-registered "double-guarantee" enterprises clearly out-performed other enterprises in the province with a GVIO of 8.692 billion yuan in the first eight months, accounting for 28 percent of the provincial GVIO.

## Textile Industry Promotes Product Quality, Variety

### Editorial Urges Quality-First Policy

91CE0068A Beijing ZHONGGUO FANGZHI BAO  
in Chinese 8 Oct 90 p 1

[Editorial: Product Quality of Textile Industry Discussed]

[Text] The year 1990 is a year of variety and quality in China's textile industry.

In April 1990, the Ministry of Textile Industry convened a national textile industry quality work conference in Nanjing. The conference seriously studied the problems China's textile industry faces, loudly and clearly put forth an annual appeal for variety and quality, and concretely arranged for improving textile product quality. Following that, in Qingdao the Ministry of Textile Industry convened a meeting to exchange experiences regarding basic enterprise management. It also held exhibits and sales meetings specifically for fake silk polyester fiber and ramie textile products in Beijing and other large cities. An experience exchange meeting regarding quality of gauze items was held at Shanghai's Jiafeng Textile Mill. Most recently, a work discussion meeting on earning foreign exchange for textile product exports was held in Dalian.

We are happy to note that annual activities related to product quality in the textile industry gradually are showing results. An awareness of quality is being universally enhanced on the part of various levels of cadres in the textile system and the broad numbers of workers in grassroots enterprises. With regard to the cotton textile industry, many enterprises still are able to maintain stable product quality under conditions of poor raw cotton quality, small reserves, and difficulty in regularly mixing cotton. Information conveyed by cotton textile enterprises that always have had exceedingly good product quality, such as the Shanghai No. 28 Cotton Mill, the Jiafeng Cotton Textile Mill, the Shijiazhuang No. 2 Cotton Mill, the Beijing No. 2 National Cotton Mill, the Qingdao No. 5 National Cotton Mill, the Handan No. 4 Cotton Mill, and the Xibei No. 1, 4, and 5 cotton mills in Shaanxi, suggests that products still are selling well. Foreign trade departments have made high appraisals, and foreign businessmen have good opinions of their products, to the extent that they have received heartening and inspiring honors and awards.

Nevertheless, problems and the outlook still are grim for the overall situation in the textile industry as a whole.

Considering the cotton textile industry and the combined role of many objective and subjective factors, there still has been no turnaround in the trend of an overall drop in quality. Problems that had been solved and for which rather good quality targets had been met as early as the 1960s and 1970's are once again big problems perplexing the industry, such as cotton yarn streaking, weaving impurities, weaving flaws in cotton cloth, and soil. Second, there are severe fluctuations in the quality of cotton yarn and cloth. Dyeing performance stability cannot be assured among batches, even to the point that there is color variation on bolts of gauze and on finished products which came from the same dye lot. Buyers are terrified at the prospect, particularly overseas buyers. The third problem related to product quality is that new technology is being applied too slowly. The equipment and technology of enterprises are seriously unsuited to the new demands of the international market. This inappropriateness is becoming all the more prominent in the demand for cotton yarn CV value; the demand for cotton yarn, cotton thread, cotton cloth, and cotton knitwear to have no knots or few knots; and horizontal and bias weft demands for grey cotton cloth, printed fabric, and yarn-dyed cloth. This has led to a loss of traditional markets to other countries.

The primary and key issue in turning this situation around is the need to reconfirm the policy of quality first under new historical conditions, and to truly implement the policy in the production of each and every enterprise in the textile industry.

First of all, this means that we must really implement quality first in the management of enterprises and the industry itself, and not give priority to output value, yield, or speed. Even short-term economic returns also must take a back seat to quality, yielding to the policy of "quality first." All considerations contrary to this policy must be firmly eliminated. Interference and blind direction from all quarters must be stood up to. There is nothing to discuss if we do not exhibit determination on this issue in all actual annual arrangements and measures taken regarding variety and quality in the textile industry.

Of course, true implementation of the policy of quality first should mean that enterprises within the industry seriously guard product quality. Mills must supervise themselves, with added supervision by commercial outlets and foreign traders. Scheduled and unscheduled sample taking must not be treated lightly. We must not deceive ourselves as well as others. Any product not up to par must never be allowed to leave a mill. We must find every way and mean to reduce the incidence of finished product flaws.

When implementing the policy of quality first, with regard to undertaking equipment upgrading and technological transformation of enterprises and the industry we should do things in order of importance. The focus of development for China's textile industry in the 1990's should not be upon expanding production but rather



upon understanding the inherent meaning of and improving the quality of the industry. However, there are limited funds for renovating equipment and transforming technology. The main use of limited funds should be to give first place to resolving some top priority equipment and technology questions regarding product quality.

Steadfastly upholding the policy of quality first is related to the life of enterprises. Practically all matters are determined by this crucial move: market competitiveness, market share, level of profits and foreign exchange earnings, and even whether or not we can overcome objective difficulties under the present market sluggishness, whether or not we can use raw materials, whether wages and costs will rise, and other elements affecting profits. Actually, this issue also determines whether a particular region's textile industry can continue to grow in the 1990's or even after the year 2000. Even more importantly, in today's world, industrial product quality levels still are a matter of national spirit, the state of the nation, and the quality of its people.

At present, the important question is to stop quality first from becoming an empty slogan, and to prevent retreat and nonchalance as soon as contradictions are found. We must attack quality with the real thing—this is a litmus test for wise enterprises, entrepreneurs, and local textile industry leaders.

### **Quality Inspection Teams Dispatched**

9ICE0068B Beijing ZHONGGUO FANGZHI BAO  
in Chinese 8 Oct 90 p 1

[Text] In order to further motivate quality management of textile products and to carry out arrangements for the "year of quality and variety" within the industry, the Ministry of Textile Industry recently issued a "Notice regarding the organization of quality inspection activities in the textile industry."

Since the national textile quality working meeting held in April, with an air of seriously implementing the spirit of the meeting, textile offices and enterprises in various areas have made arrangements for each actual step to be taken for the year of quality and variety. In making and carrying out these arrangements, certain results have been achieved. So as to examine the implementation of quality arrangements made in 1990, the Ministry of Textile Industry decided to undertake an overall examination of quality within the industry. It has summed up experience, analyzed existing problems with product quality and their causes, and studied measures to upgrade further the quality of textile products.

Minister Wu Yingwen [0702 2429 5391] is paying great attention to this quality inspection work. Minister Wu is the director of the textile quality inspection team. Textile offices in various provinces and municipalities have set up quality inspection branches that are headed by the chief comrades in charge of those offices. The ministry's

team established 12 inspection groups, including specialized ones for silk, clothing, and textile machinery and equipment. They are headed by office managers. In early October, each inspection branch will be sent to start examining operations in various areas.

The "notice" demands that each area fully mobilize the masses, adopt effective measures, and immediately muster the forces to carry out quality inspection work in its own area. Inspections mainly will cover awareness of quality among various levels of leadership, the planning and implementation of quality work, actual measures and results of enhancing quality, reviewing past work and existing problems, as well as future plans and arrangements for work on quality.

### **Minister Wu Wenying Urges Impartiality**

9ICE0068C Beijing JINGJI CANKAO in Chinese  
9 Oct 90 p 1

[Text] In order to review the results of "1990, the year of textile quality and variety" in China, today the Ministry of Textile Industry decided to send Minister Wu Wenying [0702 2429 5391] and vice ministers Ji Guobiao [1323 0948 2871] and Wang Zengjing [3769 2582 2417] as leaders of quality inspection teams to various major textile product producing areas to inspect and supervise work. The 12 inspection groups led by local office managers all left Beijing today.

In a news release of the 8th, Wu Wenying noted that the inspection team will motivate the managers and quality inspection departments of various textile producing areas to look upon quality in the industry "impartially and incorruptibly, in a hardhearted manner, and with iron-fisted measures." The team will help local textile enterprises analyze the reasons for problems they encounter, solve them, and spur on the entire industry to deepen and widen its quality work.

China's textile product export figure accounts for one-quarter of all commodity exports. Yarn, cloth, and silk, the main products, account for 40 to 90 percent of the world's textile products under these categories. Upgrading textile product quality directly is related to China's overall foreign exchange export earnings. Thus, by taking a series of measures such as improving basic management and running technology training courses for the masses, July statistics for the textile industry showed two to five percent average increases over the first half of the year in acceptable textile product export rates for 100 percent cotton printed cloth, washed bleached cotton cloth, dyed cloth, and bed sheets. Aggregate acceptable export rates for Beijing, Nanjing, Guangdong, and Fujian already are higher than 90 percent. A group of enterprises in Shanghai, Beijing, and Handan have won top quality certificates and prizes from foreign businessmen.

Nevertheless, the quality of China's textiles varies greatly from region to region and enterprise to enterprise within the same region. In a few areas, acceptable export

rates of textile products still are less than 50 percent. Individual enterprises still exhibit manmade quality errors.

It is said that during the fourth quarter the Ministry of Textile Industry will carry out a large-scale nationwide sample survey on the quality of the outward appearance of mainly yarn and cotton items. The results will be made public. Enterprises will have a limited amount of time to correct problems of unacceptability found under the label of top quality products. If unacceptable items are found again thereafter, the top quality designation will be revoked.

### Plant Loses Textile Product Export License

91CE0068D Beijing ZHONGGUO FANGZHI BAO  
in Chinese 8 Oct 90 p 1

[Text] Due to quality problems with exports, the export license and quality permit for textile products of the Taiyuan Cotton Mill in Shanxi province have been rescinded by Shanxi's Office of the Textile Industry, Foreign Economic Relations and Trade Office, and the Import-Export Commodity Inspection Bureau. A limited period has been specified in which to correct the problems. No units engaged in foreign trade are allowed to purchase the mill's products for export.

In 1989 the Taiyuan Industrial Product Import and Export Company notified the Commodity Inspection Bureau of Shanxi Province that among 12 batches of more than 420,000 meters of Taiyuan Cotton Mill's pinwale corduroy grey cloth for export, nine batches of approximately 310,000 meters met export requirements; the acceptability rate was 74.2 percent. Of the items inspected, a rather great number of cloth products had coarse surfaces or wool prints that seriously deviated from standard specifications. External flaws exceeded standards. Cloth surfaces were dirty and moldy. During the commodity inspection, even a half-eaten rotten apple was discovered pressed between the cloth. A 10.97 meter cloth surface was dirtied and moldy because of this, thereby creating severe losses and bad repercussions for the state.

The Office of the Textile Industry of Shanxi Province took grave consideration of the problems after they were discovered, dealing with the problems seriously and severely. In addition to ordering that the director of the mill undertake a thorough examination, that the deputy managing director and person in charge of the shop in question be removed from their posts, and that two inspectors and one repair person directly responsible lose their bonuses, the office also required full compensation for losses caused by the dirty products. Moreover, it ordered investigations be held at all meetings of shop workers.

To learn from this experience, the mill is adopting a series of measures to be undertaken in order to correct thoroughly the situation, in ideological, organizational,

and institutional terms, and in terms of management, labor discipline, and actual practices.

### Steel Enterprises Fail To Pay Stamp Tax

91CE0074B Beijing JINGJI RIBAO in Chinese  
11 Oct 90 p 1

[Article: "Stamp Tax Collection Is Obstructed at the National Steel Product Fair; the State Administration of Taxation Calls for Efforts To Pay Taxes According to Law"]

[Text] Information from the State Administration of Taxation confirmed that the National Steel Product Fair, which was held from 22 June to 1 July in Taiyuan, Shanxi, concluded the transactions of 10 million tons or about 10 billion yuan worth of steel products which translated into roughly 6 million yuan in stamp taxes. But only some 340,000 yuan was actually collected. The difference in the amount indicates that over 90 percent of tax payment was not collected on the spot.

It is understood that five days after the opening of the fair, which was sponsored jointly by the Ministry of Materials and the Ministry of Metallurgical Industry, the Taiyuan City's tax department went to the fair ground to advertise tax laws and carry out some preparations for tax collection. But when the stamp tax collection began on 29 June, some enterprise representatives claimed that they did not have tax money prepared because they were not aware of the stamp tax, some enterprises refused to provide tax information, some even ridiculed tax personnel, saying that they did it for the purpose of "profit-sharing and bonus distribution." They used all kinds of excuses to refuse paying taxes. After that, the Shanxi Provincial Government, the Taiyuan City Government, the Ministry of Supervision, the Ministry of Materials, the Ministry of Metallurgical Industry, and higher tax authorities issued clear instructions on collecting taxes according to law and in a civilized manner, which helped improve the tax collection situation. However, most enterprises failed to voluntarily examine and register for tax agreements, causing the collection of stamp tax to be very unsatisfactory.

An official of the State Administration of Taxation pointed out: The "Provisional Rules of the PRC on Stamp Tax" stipulates that the order contracts signed at the steel product fair come under the tax category of "purchase and sales contracts" and that the two parties should pay stamp taxes on the spot according to the tax rate of 0.03 percent on the amount of purchases or sales written in the contracts. To ensure that tax departments can collect tax according to law, local tax organs should urge and supervise those who failed to pay stamp tax at the fair to make up the amount they owed. They should by no means be allowed to get away with this.

This official wished that leaders in government organs and departments concerned at all levels can vigorously support and assist tax organs in tax collection. From now on, at different kinds of large-scale fairs, the sponsors

should adopt corresponding measures to urge enterprises to pay stamp tax on the spot to tax departments according to law when they sign the contracts so as to guarantee the implementation of the state's tax laws.

### **Shandong To Classify Industrial Enterprises**

SK3011141190 Jinan DAZHONG RIBAO in Chinese  
18 Oct 90 p 2

[Text] Recently, the provincial economic commission, planning commission, statistical bureau, financial bureau and labor bureau made arrangements for the classification of the industrial enterprises of the province in line with the guidelines of relevant state documents. The following principles will be followed in the classification: First, enterprises will be classified strictly according to the "criteria for classifying large-, medium-sized and small industrial enterprises" issued by the state, and neither additional requirements will be added nor special consideration for egalitarian reasons. Second, enterprises will be classified resolutely according to their production capacity. With regard to those of a few trades concerning which classification according to production capacity is difficult, they should be classified according to the original value of their fixed assets. If an enterprise has both production capacity and fixed assets, both should be considered. Third, the categories of enterprises should be separated from the administrative levels, wages, and other economic benefits of government organs. Classification of enterprises will be carried out this year with concentrated efforts. In the future, it will be examined once a year, in general. According to state regulations, large enterprises should be examined and approved by the provincial economic commission, the provincial statistical bureau and provincial industrial departments, and then be submitted to pertinent state departments for examination and approval; and medium-sized enterprises should be examined and approved by the provincial economic commission and the provincial statistical bureau.

### **Projections for Shanghai Textile Industry**

91CE0090A Shanghai JIEFANG RIBAO in Chinese  
15 Oct 90 p 5

[Article by Jin Zhongxing (6855 0022 2502): "Whither Shanghai Textile Industry?"]

[Text] With a labor force of 208,000 people and 102 production enterprises, the cotton spinning and printing industry of Shanghai boasts 2.7 billion yuan in fixed assets and an annual output value of 6.32 billion yuan and allocates \$673 million worth of exports to the export sector, making it one of largest industries within the textile sector. Cotton spinning and printing owes its prominence within the textile sector not only to its large scale and the fact that its output value, employment, foreign exchange earnings from exports, profits, and other indicators all account for about 40 percent of the total, so that it constitutes half of the sector, but also

because what happens in the industry affects everything else in the entire textile industry: knitting, apparel, threads and ribbons, towels, bedding, yarn-dyeing, and handkerchief manufacturing all depend on the cotton spinning and printing industry for their primary products. In recent years, the cotton spinning and printing industry has made some progress in its export capacity, equipment, and product design, but the pace has been halting. Output and output value have been declining year after year and profits have been falling. Compared to 1980, output value fell 430 million yuan in 1989. The output of cotton yarn, cotton cloth, and print and dyed fabrics fell 87,000 pieces, 25,000 bolts, and 58,000 meters, respectively. Taxes and profits realized declined 1.39 billion yuan, merchandise set aside for export rose \$189 million, the average cost of earning foreign exchange increased 1.59 yuan, overall productivity slipped 5,000 yuan, and per capita profits and taxes dropped 3,980 yuan.

We learned from our survey that these are the major difficulties and problems in the cotton spinning and printing industry right now: 1) cotton accounts for an excessive proportion of the raw materials used, which puts the industry in a passive position; 2) most of the products are popular goods of dependable quality, which makes the industry uncompetitive; 3) diminishing accumulation capability, making it difficult for the industry to develop; 4) equipment and plants are obsolete and in dire need of transformation; 5) a shortage of labor and the quality of the workers is declining; 6) the relations between industry and trade have improved little and the burden has increased; 7) the management system has not been straightened out and regulation and control is half-hearted.

Battered by so many difficulties and declines, has the cotton spinning and textile industry hit bottom? Can it rebound? A careful analysis is in order.

At present, the demand for textile products on the international market shows a steady upward trend. Nevertheless, Shanghai's textile industry is confronted with multiple challenges on both the production and the export fronts. It must make a huge effort if its apparel and printed and dyed fabrics are to secure a foothold in and capture a growing share of the medium-priced and upscale market now monopolized by developed nations and Asia's "four little dragons." As for the cotton yarn and grey cloth market, competitive pressures mostly come from the latecomers of the Third World which are fast catching up. If China is to keep its present edge, it must do much more to improve its equipment, technology, and quality. Meanwhile, the domestic textile industry too has changed rapidly both in quantity and quality. In terms of quantitative change, its processing capacity has been increasing steadily. More and more domestic cotton is being consumed where it is produced, further worsening the raw material shortages plaguing Shanghai's cotton spinning and printing industry. As for qualitative changes, the equipment and factories of other provinces and municipalities are generally more modern



than those of Shanghai and some textile plants have overtaken Shanghai or are in the process of doing so, turning out sophisticated high-quality products. Let us take a look at Shanghai itself. While the cotton spinning and printing industry has invested more in technological transformation during the Seventh Five-Year Plan than in any other period in history, it was still a mere 372 million yuan, including a meager 250 million in equipment, and, judging from the fact that it has thus far increased its capacity for yarn and cloth manufacturing by 30,000 tons and 58 million meters, respectively, what limited investment it made was mostly spent to increase production; little was devoted to really improving equipment, design technology, and marketing technology. With the Eighth Five-Year Plan now under way, there is little chance that the thrust of the municipality's capital construction and technological transformation drive in industry can be redirected toward the cotton spinning and printing industry, which is already clearly at a disadvantage. On the other hand, the possibility that the industry can raise funds on its own to launch a wide-ranging technological transformation is also remote because it has little accumulation capability and is hamstrung by debt repayment obligations.

It can thus be seen that the cotton spinning and printing industry is facing an extremely grim situation. Any moment it may be further shaken up by a crisis in raw materials, market, profitability, equipment, or labor. A continuous decline is still a distinct possibility. Under these circumstances, the old approach of expanding the scale of production to increase exports and profits is obviously unworkable. Nor is the industry likely to turn itself around through an extensive industrial readjustment or by switching to other product lines. The No. 1 Cotton Mill of Shanghai carried out transformation through a preferential policy, but that is too financially burdensome to be duplicated.

However, the cotton spinning and printing industry of Shanghai is also presented with three opportunities. First, domestic cotton procurement prices are slated for a major readjustment, after which some cotton spinning plants in the interior may be forced by soaring costs to cut back on cotton consumption. Moreover, a rise in cotton procurement prices will stimulate cotton production, thus increasing cotton supply. Shanghai's cotton spinning and printing industry must make full use of this brief opportunity that may appear next year and the year after that to accumulate some foreign exchange and renminbi funds to help a host of enterprises to transform and overhaul themselves. Second, we must open our eyes to the fact that amid the general downturn that grips the cotton spinning industry, there are several "star" enterprises that remain quite vigorous and are doing well in terms of production, including Jiefeng, No. 28 Cotton Mill, No. 4 Cotton Mill, No. 10 Cotton Mill, No. 27 Cotton Mill, and No. 12 Cotton Mill. We must consolidate, amplify, and expand the strengths of these enterprises in product, management, technology, quality, and profitability. Third, we must utilize the opportunity

presented by the development of Pudong to actively attract foreign capital to transform existing textile plants. With Taiwan shifting its cotton plants to the mainland, we must take pains to attract a number of solid and well-known Taiwan companies to Shanghai. We must absorb their funds, use their raw materials, import their technology, and take up their quotas to fuel the development of and transform Shanghai's textile enterprises. If we make good use of all these opportunities, we may inject some life into certain enterprises in the cotton spinning and printing industry for a period of time, but these opportunities do not amount to a way out for the industry overall in any fundamental way. In the long haul, the only hope for the textile industry of Shanghai is to pursue multiple processing and complex processing, follow the route of "both ends abroad," and concentrate on marketing moderately- and high-priced fabrics, apparel, and decorative products abroad, while reducing the total volume of products imported for processing as appropriate. This is the only way to conform to the development trends. Right now, in accordance with the principle of limiting and gradually reducing the scale of production, we should further reform the export system; vigorously readjust the raw material mix, the product mix, and the organizational structure; and transform a number of enterprises in order of priorities, so that the industry turns out and exports high-count and upscale products with a high-added value. Toward that end, it is proposed that we take the following steps:

First, intensify foreign trade reform and gradually straighten out industry-trade relations. Create conditions to make it possible to replace the current "sham agent" system in export with a "genuine agent" system. Liberalize management to enable a number of "star enterprises" to make their way into the international market. Explore ways to establish a production and management system combining industry with trade.

Second, speed up technological transformation and gradually put an end to backward production. Pool what limited funds there are to help key enterprises transform themselves. Make use of the policy of developing Pudong to transform old enterprises.

Third, readjust the organizational structure and limit the scale of the industry. Merge some of the small- and medium-sized production enterprises. Properly plan and prepare for the closing and suspension of a number of enterprises as part of the effort to curtail production capacity.

For the cotton spinning and printing industry as a whole, we must now improve leadership, work hard to overcome all sorts of difficulties, do our best to operate at normal capacity, and strive to increase exports and foreign exchange earnings and cut losses. The municipality and the textile bureau should make a special allowance for the industry in all their economic policies to help it overcome its various difficulties and ultimately work itself out of its plight. For instance, they may relax

the rules appropriately in making working capital loans and, as far as the distribution of profits is concerned, go out of their way to accommodate "liang jin" withdrawals. The implementation of the export agent system requires active cooperation from the foreign trade sector. Circulation costs should be strictly limited and uniform regulations should be formulated.

### **Commentator Urges Technological Transformation**

HK2211022590 Beijing JINGJI RIBAO in Chinese  
19 Oct 90 p 1

[Commentator's article: "Grasping Technological Transformation Is a Good Move"]

[Text] Technological transformation and market activation—the two are not directly related to each other, but are actually closely linked. Through technological transformation, we can not only directly whet production demand for such industries as building materials and electrical machinery, but also bring about a rise in consumption demand, so as to achieve the purpose of activating the market and promoting production.

In light of the market slump which has persisted for more than a year, the state has adopted numerous measures for activating the market, such as providing loans for production enterprises aimed at activation, particularly large- and medium-sized enterprises. This act, however, has not caused apparent economic revival. The market is the same as before. In the first half of this year, the key point in extending loans was turned to activating enterprises in the circulation field. Vast amounts of funds for activation had been injected into commercial and materials departments, but the market remained weak. Funds for activation were increased twice with no marked results achieved. The reasons were: Resorting to the method of injecting a large amount of circulating funds to resolve enterprises' difficulties in production and turnover has only led to the continued increase of the originally unmarketable products. The result is bound to be: The greater production output, the higher overstocking of goods. Extending large amounts of loans to enterprises in the circulation field is no more than "moving" products from industrial enterprises to commercial enterprises. True, this enables industrial enterprises to get a breathing space, but the condition of funds being held up and market demand remaining weak has not been completely changed. This has brought about the question of "where to start activating the market."

The reason for market slump in the deeper level is the dislocation between production setup and product mix. The current market is characterized by the coexistence between stockpiling and shortage of products. Numerous enterprises attempt to readjust product mix, develop new products, and reinforce market adaptability. But, owing to the fact that enterprises are shouldering fairly heavy burdens and plagued by "debts involving enterprises," they have no money for carrying out technological transformation with respect to outmoded equipment

and are incapable of developing or switching to the production of new products. Now, enterprises which are quick at developing new products, have strong market adaptability, and can carry out their production operation smoothly are often those enterprises which have always attached importance to technological progress and have incessantly been conducting technological transformation. Therefore, appropriately increasing funds for technological transformation and accelerating the readjustment of product mix has become an important measure and a good move for activating the market.

Naturally, in the process of readjusting the product mix and activating the market, how to properly activate production demands without causing a new overheated economy is an issue that deserves our attention. Technological transformation is not the same as setting up new stalls or engaging in capital construction. Generally speaking, capital construction requires a higher input and a longer cycle, without yielding production output for a longer period of time. However, technological transformation means making use of existing enterprises to achieve quicker results with lower input. This will not only activate production demands in good time, but also more expeditiously increase effective supply.

Given the condition that results have been achieved in improvement and rectification in the present stage, it is impractical to carry out large-scale technological transformation in the existing enterprises. The state can only properly increase its investment in technological transformation. Not long ago, the People's Bank of China made a decision to increase loans for technological transformation by 5 billion yuan earmarked for technological transformation projects aimed at saving on energy and raw and processed materials, developing new products, earning foreign exchange through export, and projects which need less money but can obtain faster results. Enterprises must truly spend the money on technological transformation, technological progress, and readjustment of the product mix. The funds must in no way be used to set up new stalls or carry out new capital construction. With regard to the use of funds, we should start with projects that require shorter cycles and lower investment but can obtain quicker results. Banks must reinforce their supervision and work together with enterprises to evaluate and prove the feasibility of the projects for technological reform and analyze market prospects, so as to truly use the funds for technological transformation where they are needed most. Relevant departments should also do a good job in providing material supplies for technological transformation projects, so as to accelerate its pace.

Technological transformation is an old topic which has been discussed for many years. But many enterprises still maintain their old features and are becoming more and more backward. The actual cause is the shortage of funds. The increase of investment by the state in technological transformation is, after all, limited. Enterprises must not place their hopes entirely on investment by the state. They must mainly rely on themselves to raise

funds. Naturally, the state must have supporting preferential policies in other aspects. Over the past 10 years, Dalian City has raised funds through various channels for technological transformation totalling more than 7.1 billion yuan, enabling 40 percent of the enterprises in the entire city to carry out technological transformation and promptly readjust their product mix, thereby increasing the economic power and reserve strength for development of the whole city. Over the past 10 years, technological reform has been carried out in 53.5 percent of the enterprises in the electronics industrial sector in Jiangxi Province to strengthen their market adaptability. These facts indicate that the key lies in truly attaching importance to technological transformation and supporting it in terms of policies. Relevant departments should create more conditions for enterprises and encourage them to raise funds by relying on their own efforts to carry out technological reform. Such technological reform should be supported so long as it is in keeping with industrial policies and suits market demand, and its sources of funds and the willingness of enterprises of taking the sole responsibility can be ensured.

#### **Building Materials Industry on Upturn**

HK2211021690 Beijing CHINA DAILY in English  
22 Nov 90 p 2

[By staff reporter Zhang Yu'an]

[Text] The country's building materials industry, for the first time this year, saw a "positive increase" in output, a senior official told China Daily yesterday.

From January to October, the industry turned out 17.2 billion yuan (about \$3.6 billion) worth of products, registering a slight 0.74 percent rise over the same period last year, the official said.

"Though only a tiny rise, it is encouraging for us against such a nationwide sluggish building material sales market," said Yang Zhiyuan, deputy director of the State Administration of Building Materials Industry.

Before October, the industry had been suffering a "negative increase" for nine months due to the country's sharp cut-back in capital construction investment, he said.

Despite that, this year's external conditions for production are much better than last year, which means full supplies of electricity, coal and raw materials should register a one percent increase for the whole year.

"Now almost all structural construction in major projects should have been finished as the cold weather is approaching," he said. "There won't be a sharp rise in sales of cement, a major product of the industry."

But a rise of flat glass sales is bound to come because more glass is needed to prevent the cold.

In accordance with slow sales, inventories of major building materials are sizable.

At the moment, 11 million tons of cement and 10 million boxes (one box weighs 50 kilograms) of glass are stockpiled.

Yang predicted that about 1,000 of the country's 6,700 small cement producers will be forced to close and one-third of China's 24 key glass plants will lose money by the end of this year, something that has been rarely seen in recent years.

However, he said, to avoid the weak domestic market, the industry is widening its overseas market for more exports.

In the first three quarters of this year, Yang said, the industry exported \$660 million worth of building materials, up 38.5 percent on last year.

At the same time, imports dropped by 10.8 percent to \$208 million.

This is because, Yang said, on the one hand overseas demand for China's building materials is increasing; and on the other, China-made quality building materials can replace a lot of imported ones in key projects, such as the 11th Asian Games Athletes Village, hotels and gymnasiums.

In the first nine months, the industry exported 3.5 million tons of cement, mainly to Southeast Asian countries and regions, such as Thailand, Japan, the Philippines, Hong Kong, Macao and Taiwan.

Yang optimistically foresaw that cement exports this year would reach five million tons, more than 10 times 1989's exports.

To guarantee this, a cement export group corporation is to be established in Nanjing, Jiangsu Province, later this month.

Next year, Yang said, the administration will help set up several cement export bases along the middle and lower reaches of the Yangtze River and in coastal areas.

In the Eighth-Five-Year Plan Period (1991 to 95), some bulk cement export docks will be built to further promote cement exports, Yang said.

#### **Gansu Develops New Yarn Technology**

OW2211111490 Beijing XINHUA in English  
0753 GMT 22 Nov 90

[Text] Lanzhou, November 22 (XINHUA)—Dacron filament double-contraction yarn technology developed in Gansu Province, northwest China, recently passed the appraisal process.

The relatively new technology gained prominence throughout the international textile industry during the 1980s. The yarn has a soft luster and is easy to handle, which gives cloth made from the material excellent drapability qualities and a high elastic resilience.



Even though the cloth made with the new yarn requires only 20 percent of wool required by all other wool cloth, it is difficult to determine the new cloth from the old. In addition, the cost of the new type cloth is half that of the old.

The technology, which was developed by the Gansu Textile Institute, has been used successfully in the development of new fibers such as a silk-like flax yarn, wool and cotton flax yarn.

Experts say the new technology provides broad prospects for the use of both natural and synthetic fiber.

### **Imported Technology Results In Expanded Production**

OW2311153490 Beijing XINHUA in English  
1246 GMT 23 Nov 90

[Text] Beijing, November 23 (XINHUA)—China has imported 3,868 technological items valued at 20.4 billion U.S. dollars and exported more than 100 items worth about 800 million U.S. dollars since 1980, according to the China Technology Market Management and Promotion Center.

The imported technology has helped create a solid foundation which has enabled industries to expand production and achieve better economic results, an official from the center said.

During the 1950s, most of China's imported technology came from the Soviet Union and Eastern European countries. During that ten year period, China imported 450 technological items at a cost of 2.7 billion U.S. dollars.

Japan and Western European countries became the main import sources in the 1960s. During this decade, the country imported 84 items valued at 300 million U.S. dollars.

In the 1970s, China imported 336 complete industrial plants worth 8.4 billion U.S. dollars from Western Europe.

China began to export technology in 1980, at which time it sold four technological items for 1.2 million U.S. dollars. Prior to 1980, however, the country used to provide Asian and African countries with technology in the form of technical aid.

Economic reform and the open policy have bolstered China's technology trade. In 1989, China's technological exports amounted to more than 800 million U.S. dollars and involved 160 items, including industrial property licenses, coal dust spraying for blast furnaces and VC two-step fermentation technologies, complete industrial plants, and technical services.

### **Beijing High Tech Firms Maintain Stability**

HK2611034290 Beijing CHINA DAILY in English  
26 Nov 90 p 3

[By staff reporter Zhang Lin]

[Text] Most of the nongovernmental high-tech firms in Beijing are still enjoying an economic boom despite tighter credit and falling sales in other sectors.

The flourishing of the enterprises had given a strong shot in the arm to the country's high-tech development, according to the chairman of the entrepreneur association for high-tech firms Ji Shiying, who was speaking over the weekend on the 10th anniversary of the founding of the first nongovernmental high-tech enterprises.

Ji gave the example of the Beijing Experimental Zone for the Development of New Technology Industries in Zhongguancun Street, Haidian District, where total revenue reached 1.78 billion yuan (\$378 million) last year, an increase of 30 percent from the 1.4 billion yuan (\$297 million) of the previous year.

And the zone, set up two years ago, had paid the State 70 million yuan (\$14.86 million) in taxes in 1989, a jump of 40 per cent from 1988, Ji said.

As the birthplace of China's nongovernmental high-tech firms, Beijing now boasts more than 2,100 such collective or private high-tech firms employing more than 40,000. Some 719 firms are in the experimental zone.

More than 3,000 high-tech projects had been developed over the past decade and 1,600 put on the domestic and international markets, Ji said.

Firms such as the Stone Group and Syntone Corporation had become the symbol of China's fledgling electronic and computer industry, he said, adding that about 52 such nongovernmental high-tech firms had been named "Excellent High-Tech Enterprises," and some 122 high-tech products listed as excellent products over the weekend.

The firms had helped China begin its slow road towards computerizing its administration business, and also spurred an electronics industry that could be exported, he said.

Song Jian, the State Councillor in charge of scientific affairs, has reaffirmed the State's policy of supporting and guiding these nongovernmental high-tech firms will not change, according to Ji.

He said a series of flexible policies—ranging from tax exemptions to concessions on overseas travel had been adopted in the Beijing experimental zone.

This was because introducing free competition between public and private enterprises in the developing and marketing of high-tech products was the key to bringing about a new science boom in this country, Ji said.

Hundreds of private and collectively-owned science firms in the zone had set an example in how to make the best use of human talents, he said, adding that they had also played a pivotal role in linking high technology and scientific results with production.

Ji said 70 percent of the firms in the zone were run by institutes, higher learning institutions and firms in the defence industry, attracting 11,200 technicians with college degrees.

### Industrial Efficiency Rebounds in October

OW2811000890 Beijing XINHUA Domestic Service  
in Chinese 1101 GMT 27 Nov 90

[By reporter Wu Shishen (0702 1102 3234)]

[Text] Beijing, 27 Nov (XINHUA)—Due to the rapid recovery of industrial production and the gradual increase in market demand, the sliding economic efficiency of industry took a turn for the better in October. Labor productivity in the industrial sector declined at a slower pace, cost overruns of comparable products took a downturn, and profits and tax revenues on sales of industrial goods crept up.

Thanks to the gradual implementation of various measures taken by the central authorities since October to relax macroeconomic regulation and control, the strain on normal production and circulation caused by inadequate demand has slackened. The national economy has gradually overcome such difficulties as slow production growth and depressed market demand. In October, industrial output grew by 12.7 percent, the highest monthly growth rate for the year. Market activity in rural areas began to pick up as demand in urban areas gradually returned to normal levels. This has brought the continuous slide of economic efficiency under initial control. In October, centrally-budgeted industrial enterprises delivered about eight percent more profits and tax revenues than in the previous month.

According to statistics released by the State Statistical Bureau, labor productivity in state-owned industrial enterprises with independent accounting authority dropped by 0.3 percent in October, compared to 0.8 percent in the preceding three quarters. Eleven provinces, municipalities, and autonomous regions registered positive growth. Hainan, Yunnan, Guangdong, and Jiangsu Provinces chalked up increases of 4.5 percent or more. Cost overruns of comparable products in state-owned, centrally-budgeted industrial enterprises ran at a rate of six percent, a slight dip from the 6.3 percent of the previous three quarters. Sales profits and tax revenues delivered by state-owned, centrally-budgeted industrial enterprises in October were slightly more than in the previous three quarters. Meanwhile, enterprises have reversed a streak of huge losses. The losses incurred by state-owned, centrally-budgeted industrial enterprises in October were six percent less than in September.

However, the foundation for improving industrial efficiency is still very weak. Efficiency is primarily built on industrial upgrading. The outdated concept favoring "speed-oriented efficiency" has yet to be discarded. The overall economic efficiency of industry has yet to improve significantly. Labor productivity, sales profits and tax revenues, and other indicators in the industrial sector are still far below the levels of last year's corresponding period, and the costs of comparable products remain high.

### Anhui New Technical Experimental Zone Develops

OW2811200490 Beijing XINHUA in English  
1629 GMT 28 Nov 90

[Text] Beijing, November 28 (XINHUA)—The GUANGMING DAILY reported today that the technical development experimental zone established in February this year near Hefei City now has 11 hi-tech enterprises.

The 2.2 sq km zone is located at the foot of Dashu Mountain which is west of Hefei City, the capital of east China's Anhui Province.

The 11 enterprises have produced 18 new high-tech products. Four of the new products have reached international standards, and six have been used as substitutes for imported products.

Authorities in the city have provided support for the development of the zone and have implemented preferential policies relating to taxation, loans, personnel employment and capital construction.

The zone is designed to have four main segments including management and scientific research, industrial production, business management and residential services. Construction is scheduled to be completed in ten years.

The zone will give priority to electronics, information technology, laser and new material technology, and energy related industries.

### SMALL-SCALE ENTERPRISES

#### Lin Ruo, Others Speak at Guangdong Work Conference

91CE0077C Guangzhou NANFANG RIBAO in Chinese  
6 Oct 90 p 1

[By reporter Liu Ruixiang (0491 3843 4382) and Correspondent Chen Wenxue (7115 2429 1331)]

[Text] A work conference on Guangdong township and town enterprises was convened in the Guangzhou on 5 October. The conference conscientiously summed up the period of the Seventh Five-Year Plan, especially the successes and experiences in developing Guangdong's township and town enterprises since the advent of

improvement and rectification, studied how party and government leaders and the relevant departments can render positive support, and made definite the strategic goals and principle measures for developing township and town enterprises during the Eighth Five-Year Plan in order to promote the sustained, stable, coordinated, and sound development of Guangdong's township and town enterprises.

The conference was chaired by Vice Governor Ling Jitang [0407 0130 2768] and heard speeches by Provincial CCP Committee Secretary Lin Ruo [2651 538"], Governor Ye Xuanping [0673 6693 1627], and Provincial CCP Committee Deputy Secretary Guo Rongchang [6753 2837 2490].

After expounding on the status and functions of township and town enterprises, Lin Ruo pointed out that in Guangdong they have become a principal support of the rural economy, are at present gradually increasing their status vis-a-vis the national economy, and should continue to develop in a stable manner. Leadership at all levels must continue to firmly implement the policies of the central authorities and of the province concerning township and town enterprise development. With respect to policy issues, we must be extremely prudent and not take hasty action. We must not be eager to pass judgment on enterprises involved in "tie ins" (guakao 2171 7237), "partnerships," and "shareholdings" before the central authorities have made clear provision for them. We must aid these enterprises in developing production, and on the principle of voluntary participation and mutual benefit, lead them gradually into the cooperative economy and the collective economy. We must seriously sum up their successful experience and certain questions that deserve our attention and consider their development a principle task to be grasped by county and town party committees. At the same time, we have to adopt such methods as "drawing water to raise fish," "storing water to raise fish," and "using chickens to produce eggs" and suit measures to the conditions at hand to achieve a vigorous development of township and town enterprises that conforms with the actual local situation. Lin Ruo declared that some localities have not given adequate attention to township and town enterprise development. Many local collective economies are quite weak, and there are a large number of "empty shells." Some localities have pursued the township and town enterprise development blindly, and some have even managed unsound nonproductive projects. At the same time, we are strengthening management and improving enterprise economic efficiency, we have to conscientiously grasp political and ideological work among the workers and staff personnel and do a good job of building a spiritual civilization.

After reporting on the market situation in Guangdong for this year, Governor Ye Xuanping pointed out that market weakness is temporary and partial. Frequently, many commodities which sell poorly in this locality have brisk sales elsewhere. Within the same class of commodities, there are some which do not sell and others which

do not meet demand. Some products are temporarily slow to sell. Often, after a period of gestation, they sell well. Some products which are slow to sell in China are in high demand on the international market. Consequently, if we are to transform the current sluggish market, township and town enterprises will have to carefully readjust their product mix, strengthen management, speed up their technical progress, improve product quality, increase the variety of designs, colors, and sizes of their products, improve sales service, and work hard to develop their markets.

In summing up achievements of Guangdong township and town enterprises, Guo Rongchang declared that during the Seventh Five-Year Plan, even though they encountered great difficulty, they also achieved great success. It is estimated that, by the end of 1990, the total accumulated output value of the province's township and town enterprises could reach 222.3 billion yuan and that total income could come to 263.3 billion yuan. Compared with the Sixth Five-Year Plan, these would be, respectively, 3.43-fold and 4.08-fold increases. Our outwardly oriented economy, especially, has had prominent growth. Foreign exchange earnings from exports for 1989 alone came to 2.083 billion U.S. dollars, a 5.6-fold increase compared to 1985. After fully confirming their achievements, Guo Rongchang went on to point out that Guangdong's township and town enterprises were also beset with a number of problems that demand prompt resolution. The principle ones are as follows. The decline in production that began in the last half of 1989 still has not been reversed. Some regions and trades are still wavering in a "low trough." Some local production, although rising somewhat, is still fluctuating. Problems concerning tight funds, increased prices for raw and semifinished materials, the burden of taxes and fees, and increased costs are becoming more and more severe. Enterprise efficiency is widely on the decline, and losses are more extensive. Employment pressures are mounting. The progress of structural readjustment has slowed. In some trades, work is still being held up because of a lack of materials, and there is ideological unrest among the workers and staff personnel. And many township and town enterprise administrative and managerial offices are unsound. We definitely have to face up to difficulties, inspire enthusiasm, press forward despite our difficulties, and adopt the necessary measures to ensure a sustained, stable, and coordinated development of township and town enterprises.

More than 360 persons attended the 5 October conference, including Deputy Chairman of the Provincial Consultative Committee Du Ruizhi [2629 3843 5347], Standing Committee Vice Chairman of the Provincial People's Congress Liu Junjie [0491 0193 2628], responsible comrades from relevant provincial-level departments and those in charge of township and town enterprises in various cities and counties, and enterprise office chiefs.



# **Progress Report on Heilongjiang Township Enterprises**

9ICE0077B Harbin (HEILONGJIANG RIBAO  
in Chinese 12 Oct 90 p 2)

[By Xie Junwu (6200 0193 2976)]

[Text] Not long ago, the state announced the "The People's Republic of China's Regulations Governing Rural Enterprises Under Collective Ownership." They have marked an excellent turning point in the development of Heilongjiang's township and town enterprises.

For more than 10 years now, the province's township and town enterprises have achieved gratifying growth under the correct leadership of the provincial party committee and provincial government and with the vigorous support of relevant departments. Calculated on the basis of 1980 constant prices, total output value for township and town enterprises rose from 1.2 billion yuan in 1978 to 13.8 billion yuan in 1989, constituting 47.5 percent of the total rural output value. The province has more than 26,000 rural enterprises under collective ownership. They have fixed assets amounting to 2.55 billion yuan and employ 600,000 persons. They work mainly with local resources, rely on small towns, and bring towns and the countryside together. They cover a diverse range of trades. Their product mix is essentially sound. And rural secondary collective enterprise groups are beginning to form. During the period January to June 1990, the township and town enterprises in the province realized a total output value of 7.4 billion yuan, completed 49.7 percent of the plan, and compared with the same period in 1989 showed a 4.8 percent increase. Township and town enterprises in nine out of Heilongjiang's 14 prefectures and cities have sustained the momentum of their increases. In examining 29 comparable products, 12 have shown varying degrees of increases when compared to the same period in 1989.

Although the growth of Heilongjiang township and town enterprises has been relatively rapid, when compared with our fraternal provinces and municipalities, there are some large disparities. In 1989, in terms of total output value, sales earnings, realized net profits, and taxes paid, Heilongjiang's township and town enterprises ranked 17th, 19th, 19th, and 21st in the nation, respectively. Especially since the last half of 1989, the province's township and town enterprises have been facing a more serious situation. 1) There has been a slowdown in rapid growth and instability. During January to July, collective industrial output value increased 8.9 percent nationally but only 2.2 percent in Heilongjiang. Nine of the province's prefectures and cities are in a negative growth situation. 2) Efficiency has dropped, and the turnover period for funds has increased. By the end of June, statistics showed that profits had dropped 2.4 percent and that funds turnover was 12 days slower than for the same period in 1989, reaching 125 days. 3) Sales are slow, and funds used for finished goods are too great. During the first half of the year, the province used 600

million in funds for finished goods, a 43 percent increase compared with the same period in 1989. 4) The number of enterprises that have shut down or suspended operations has increased. According to half year statistics, there has been a reduction of 3,600 industrial collective enterprises at the village level and above, 2,000 of which have been due to shortage of funds. As many as 20-25 percent of the enterprises in some cities and counties have shut down or suspended operations.

This state of affairs has, under the constraints of external circumstances, laid bare the contradictions in the township and town enterprises themselves. One of the problems is the fragility of the economic structure. That portion of the economy and industry under collective ownership is too low. There is a lack of capacity to withstand crises. Nationally, township and town enterprises account for 66.4 percent of the rural economy under collective ownership. In Heilongjiang, it is only 40 percent. A second problem is that the number of key enterprises is small and their quality is lacking. During the entire period January to August, key rural enterprises were in negative growth. Rural industrial output value for the first half of the year was almost 1.1 billion yuan less than that of Jilin. A third problem is that guidance and services are not received. A great deal of work does not arrive at the intended location. A fourth problem is the serious effect that the slide in ideology has had. Under the pressures of unfair public opinion during the previous period, some township and town enterprise cadres suffered from fluctuating morale. They had doubts and wavered about the continued development and even the very existence of township and town enterprises. They themselves neglected to exercise leadership and lacked the confidence to seek the support of their own leaders and that of the various departments. Cadres from the relevant departments lacked the boldness to support and assist the township and town enterprises. To sum up, when compared with our many fraternal provinces and municipalities, the present development of Heilongjiang's township and town enterprises is still in the start-up stage; our development climate is still not liberalized; input is seriously inadequate; and economies of scale are far from being formed. Heilongjiang has a long way to go in developing its township and town enterprises.

Development of township and town enterprises is an objective requirement for the growth of our rural commodity economy and is the only way to achieve rural prosperity and abundance for the peasantry. It represents the direction for developing rural productive forces. Heilongjiang has a great many advantageous conditions and a large potential for developing township and town enterprises. Provided we abide by the "Regulations" and exert ourselves to the utmost under the leadership of the provincial party committee and provincial government, we definitely will be able to promote the sound development of township and town enterprises. At present, the following issues urgently need to be resolved.

1. We must further unify and deepen our understanding of the strategic significance of township and town enterprise development, create an improved climate of public opinion, and strengthen our resolve and confidence for their development.

2. We must further strengthen our leadership over township and town enterprises.

3. We must maintain continuity and stability in our policies governing township and town enterprise development; continue to adhere to the whole package of mechanisms that allow managerial flexibility, such as the primacy of market regulation, independent management, full responsibility for profits and losses, and replacing the inferior with the superior; especially invigorate the channels of investment for township and town enterprises; and extend channels for product sales.

4. We must further adjust industrial structure and product mix. We must, on the basis of state industrial policies and by relying on our superiority in natural resources and focusing on economic efficiency, go all out to develop our own industry and products with their special characteristics. We have to readjust or reduce those enterprises marked by poor quality and high prices, severe pollution, and serious efficiency problems.

5. All quarters must continue to provide all aspects of support for township and town enterprises.

6. We must bring into play the function of departments in charge of township and town enterprises and pay special attention to strengthening offices at the first level in charge of township and town enterprises.

### **Zhejiang Township Enterprises Promote Product Quality**

91CE0077A Beijing RENMIN RIBAO in Chinese  
12 Oct 90 p 1

[By ZHEJIANG RIBAO reporter Hu Guanping (5170 0385 1627) and XINHUA Reporter Yu Yunda (5713 0061 6613)]

[Text] Zhejiang's township and town enterprises have been relying on science and technology, engaging in training, improving quality, and raising standards. Eleven in the province have been judged to be national first and second category enterprises, 121 have been judged provincial advanced enterprises, and more than 500 of their products have been designated superior by the state, by the province, or by a department. As of September, the total output value for township and town enterprises had reached 46.14 billion yuan, a 6.5 percent increase compared with the same period in 1989.

The heartening success that Zhejiang's township and town enterprises have attained in the competition for

quality is a result of the province's good use of improvement and rectification in helping the enterprises employ science and technology and improve themselves through hard training.

In order to give impetus to improving quality and raising standards, the province paid particular attention to the technological transformation of the enterprises. Governments at all levels and relevant departments drew up a series of integrated policies which dealt with funding and other aspects to be used by the offices in charge of township and town enterprises at the county level and above which lacked special departments with the leadership responsibility for making technological transformations. During the first half of 1990, 16 key counties, using 396 million yuan from the 980 million yuan input of the preceding two years, went ahead with 1142 transformation projects. This enabled 9,942 enterprises in the province to achieve an annual output value of 1 million yuan.

Adapting itself to the technological transformations, the province set up leadership teams at every level to work on new product development and to concentrate on raising product quality of township and town enterprises to advanced domestic and foreign levels. In only over a year's time, the province developed 2,400 new products that increased output value 720 million yuan. A batch of well known, superior quality products headed for the world market. During the first eight months of 1990, the total volume of export products from township and town enterprises came to 3.4 billion yuan, a 44 percent increase compared with the same period in 1989.

Employing the scientific methods of market forecasts and feasibility studies to guide the technological transformations and new product development was a big change for Zhejiang's township and town enterprises. The majority of the technological transformations and development projects in the province were validated on the basis of their economic efficiency and achieved widespread and rapid results with little investment. The more than 300 200,000-yuan and above investment projects in Cixi City, which were successful one after the other, achieved an input-output ratio of 1:5.

### **Rural Industries' Profits Decline**

91CE0091B Shanghai JIEFANG RIBAO in Chinese 14  
Oct 90 p 5

[Article in the "Work Research" column: "Increase Economic Results and Reverse Economic Declines- Special Report No. One on Shanghai's Suburban Township and Town Enterprises"]

[Text] The sharp decline in economic results and the rather striking increase in losses incurred by enterprises are emerging problems facing township and town industries in Shanghai's suburban areas. There is an urgent need for us to take practical measures and reverse our passivity.

### Serious Problems and Their Myriad Causes

The economic results of township and town industries in Shanghai's suburban areas have decreased greatly this year. Compared to the total realized profits for 1989 and 1988, this year's total realized profits declined by a large amount. From January to August of this year, realized profits reached 1.329 billion yuan, a decrease of 19.8 percent over the same period in 1989. If this situation of declining economic results is not reversed, not only will it affect enterprises' survival and growth, but it will also affect economic and social construction in suburban and rural areas. It will also have an effect on helping agriculture through industry, on the "Vegetable Basket" project and even on supplies of nonstaple food products to the city. There are many reasons for the sharp drop in the economic results of Shanghai's suburban township and town industries.

Because of the influence of the weak market, quite a few enterprises are operating below capacity. As a result, their spending and costs have increased, which is one important cause of the sharp decline in economic results. In this crucial year of improvement and rectification, there are actually quite a few enterprises in suburban areas whose production mission is severely underutilized. Normally they should be closed or shut down. But in order to stabilize society and reassure the public, townships and villages follow the guidance of "Close no enterprises, maintain subsistence, and pass through the difficult time." Some enterprises that did not close lived off their past gains. Others transferred workers from enterprises that were in a slump to those with better economic results. Because of the undue emphasis on labor transfers in the past couple of years, it is common for existing enterprises to have a surplus of labor. According to an investigation of township enterprises in the two townships of Zhuanghang and Shaochang in Fengxian County, surplus laborers account for 25 percent of all workers. The surplus labor situation in village enterprises is even more serious. The situation in these two townships is representative of the situation in Shanghai's suburban areas. Presently there are 1.35 million workers hired by township and town enterprises in suburban areas. If the rate of surplus labor is 25 percent, then there are over 300,000 surplus workers. If those workers are paid an average of 1,600 yuan annually, this amounts to over 500 million yuan in extra payments.

Another important reason for the decline in economic results of enterprises is that the movement of three kinds of funds has been blocked. Loans to enterprises have increased, as have interest payments and costs. By the end of August, there was an increase in township and town enterprises' three kinds of funds. Funds for manufacturing products increased to 1.9 billion yuan, an increase of 23.9 percent over the same period last year. Funds for accounts receivable increased to 2.934 billion yuan, an increase of 25.78 percent over the same period last year. Funds for commodities which were sent out rose to 550 million yuan, an increase of 40 percent over the same period last year. These three kinds of funds alone were

worth as much as 5.4 billion yuan, an increase of 28.87 percent over last year, and 500 percent higher than the increase in output value. According to calculations by Shanghai, Nanhui, and Fengxian Counties, 60 percent of these three kinds of funds is needed for manufacturing, while 40 percent is not normally needed. As a result, of the 5.4 billion yuan in the funds, over 2 billion yuan have become stagnant in township and town enterprises. This is due in part to market fluctuations: commodities cannot be sold and so are temporarily overstocked. It is also due to coordinated processed goods for Shanghai's industries, foreign trade, and commerce that are stored in township and town enterprises because of shortages of funds. In most cases it is due to urban enterprises squeezing funds out of township and town enterprises for loans; these funds presently amount to about 1.5 billion yuan. If the interest rate of the banks' circulating loans is used as a base, then there will be extra interest payments of 150 million yuan annually. This will increase enterprises' production costs.

The prices of some raw and auxiliary materials continue to rise, and enterprises have difficulty absorbing the cost. Costs remain high and economic results continue to decline. According to an investigation in Shanghai County, because prices of metal, chemical, and grain raw materials rose after the beginning of the year, township and town enterprises in the county lost 6.52 million yuan in profits in the first half of this year. This accounted for 22 percent of the decline in economic results. Songjiang County has analyzed the reasons for the decline in economic results in its township and town enterprises during the first half of this year. Rising prices of raw and auxiliary materials were responsible for a decline of 10.410 million yuan in economic results, or 23.2 percent of the decline in economic results. Many enterprises could hardly absorb this, and incurred losses.

### Statistics Show Rapid Growth of Township Industries

91CE0091A Beijing ZHONGGUO TONGJI XINXI  
BAO in Chinese 15 Oct 90 p 1

[Article by Wang Ping (3769 5493): "Rapid Growth of Township and Town Industrial Enterprises in China"]

[Text] Since the start of reform and opening up, and especially in recent years, the state has enacted a series of preferential policies toward township and town enterprises, and these enterprises have developed very rapidly. At present township and town industries have reached a certain scale and strength, and occupy a distinct position in China's industrial economy as well.

In 1989, there were 939,200 township and town industrial enterprises in China. Of these, township industries (hereafter designated independent accounting township industries) accounted for 51.8 percent of the country's independent accounting enterprises at the township level and above. Fixed assets of township and town industries were valued at 157.448 billion yuan. Of this amount,



assets of township industries accounted for 7.59 percent of the fixed assets of the country's independent accounting enterprises at the township level and above. There were 32,769,900 workers in township and town industries. Employees hired by township industries accounted for 19.62 percent of all employees working in independent accounting enterprises at the township level and above. Sales revenues of township and town industries amounted to 350.810 billion yuan. Sales revenues of township industries accounted for 11.32 percent of all sales revenues of independent accounting enterprises at the township level and above.

In recent years, township and town industrial enterprises have developed very rapidly. In 1985 there were 170,000 township industrial enterprises. In 1989 the number had increased to 218,000. The gross output value of township industries in 1980 was 21.596 billion yuan. In 1989 it amounted to 185.792 billion yuan (calculated according to 1980 prices). Average annual growth was 27 percent, far above the annual average growth of industrial output value, which was 8.8 percent. In 1989, township enterprises employed 14,556,900 workers, which represented a 142-percent increase over 1980.

Township and town industrial enterprises are involved in various trades. Their production and business activities touch all aspects and sectors of the national economy. Some of their industries occupy relatively important positions in parts of the national economy. In 1989, township industrial enterprises accounted for the following shares of output values of independent accounting industries at the township level and above: 15.12 percent in the coal mining and dressing industries; 23.72 percent in the ferrous metal mining and dressing industries; 49.83 percent in the building materials and other nonmetal mineral mining and dressing industries; 25.62 percent in the tailoring industry; 15.17 percent in the paper making and paper product industries; 21.79 percent in the plastic products industry; 33.18 percent in the building materials and other nonmetal mineral product industries; and 12.84 percent in the machine building industry.

### **Beijing Sees Boom in Nongovernmental Enterprises**

OW201145690 Beijing XINHUA in English  
1319 GMT 20 Nov 90

[Text] Beijing, November 20 (XINHUA)—Since the first nongovernmental enterprise was established in the capital in 1980, more than 2,100 similar enterprises have been created.

In 1980, a research fellow from the Institute of Physics under the Chinese Academy of Sciences set up China's first nongovernmental enterprise. It employed seven people. Today's nongovernmental businesses, including the Stone and Syntone Companies, employ over 20,000 scientists and engineers. Last year, these enterprises achieved a total output value of 1.4 billion yuan.

According to the Beijing Nongovernmental Science and Technology Entrepreneurs Association, the enterprises have developed over 1,600 high and new-technology products from over 3,000 research projects in the last decade.

Nongovernmental businesses are formed and run by local scientists and engineers without government intervention. They take sole responsibility for their profits and losses. These enterprises combine business and technology to serve the needs of industry, agriculture and other sectors of the national economy.

According to the association, the establishment of these enterprises has promoted the transformation of scientific achievements into production.

Among the enterprises, Stone, Syntone, Jinghai and Kehai—four of the biggest—all achieved an annual output value of over 100 million yuan each in the past four consecutive years. This year, the Stone Corporation alone has achieved a total output value of one billion yuan and a 40 million yuan profit margin, according to the association.

These enterprises' products are competitive on both the domestic and world markets. The 2401-type printer developed by Stone, for example, has won several awards at international fairs and has occupied 85 percent of the domestic market sales. The 286H-type microcomputer developed by Syntone won a World Bank bid from among 30 Chinese and foreign enterprises.

The enterprises have also played a big role in the establishment and development of the Beijing High Technology Development Zone, the first of its kind in China.

Since the founding of the development zone, the enterprises have moved into many advanced fields, including electronics, information sciences, biological engineering, laser science and new materials.

Meanwhile, by enlarging export channels and setting up joint ventures, the enterprises' products, such as electrical products, precision instruments and bio-products, have entered international markets in increasing numbers.

## **CONSTRUCTION**

### **Construction Ministry Announces More Housing Projects Priority**

HK2711020290 Beijing CHINA DAILY in English  
27 Nov 90 p 1

[By staff reporter Li Hong]

[Text] China's more than 317 million urban residents may look forward to better living conditions in the coming decade, as the government has now decided to invest more funds on urban housing and public facilities.

High-ranking officials from the Ministry of Construction revealed that the State Council has put urban residential projects on the top of its development plan for the 1990s, along with essential agriculture, energy, transport and telecommunications projects.

In a speech to the international symposium on planning and design of urban housing estates held in Beijing, Vice-Minister Ye Yutang said that the per capita urban living space was expected to increase to 7.5 square metres by 1995, and to 8 square metres by 2000, from the current 6.6 square metres.

"In order to accomplish the targets, China must earmark at least 20 billion yuan (\$3.85 billion) each year for housing construction," Ye said.

According to Ye, top priority during the next five years will go to rebuilding and refurbishing all the "outmoded and unsafe houses" in the urban area.

Positive measures are also in the pipeline to modernize water, gas, heating and other urban utilities, in addition to improving public facilities and the communal environment.

China's progress in urbanization during the 1985-1990 period, according to Ye, has been "remarkably rapid."

Figures released by the State Statistics Bureau show that of China's 450 cities, 130 account for 28.5 percent of its population. And in 1989, their gross industrial production surpassed one trillion yuan.

The build-up of cities is on a more rational trend. The government has limited the number of large metropolitan centres with a population of one million or more to 28, while giving more impetus to developing around 300 small-sized cities.

Along with the rapid industrialization of 72 large cities, expanding regional development has led to the growth of city chains in such areas as the Yangtze River Delta around Shanghai, the Beijing-Tianjin-Tangshan Triangle, and the Suzhou-Wuxi-Changzhou chain in Jiangsu Province.

Continued investment has further enhanced the cities' functions as centres of communication, service, trade, finance and information.

It was reported that the government invested up to 50 billion yuan in improving urban infrastructure during the 1985-1990 period, 20 billion yuan more than the previous five years.

But, the Vice-Minister said, problems remained.

Uncontrolled urbanization has severely overtaxed the national economy, depleting the State's limited financial and energy resources.

And the huge influx of rural labourers to the cities has caused additional burdens for the limited urban facilities and created some social problems, he added.

## FOREIGN TRADE, INVESTMENT

### Dealing With External Debt Situation

91CE0003A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 8, 30 Aug 90 pp 22-26

[Article by Deng Jianqin (6772 1696 0530): "Analysis and Recommendations Concerning China's External Debt Situation"]

[Text] The foreign debt crisis in the developing countries has become a major topic of discussion in today's international dialog. China's foreign debts, outstanding at the end of 1989, add up to \$41.3 billion. As China approaches the peak of its repayment obligations in the 1990's, the problem of its external debts is beginning to attract widest attention at home and abroad. An accurate analysis of China's external indebtedness and adoption of appropriate measures to cope with its external debt situation have become questions of great acute significance.

#### 1. Major Problems in the Management of External Debts

1) Incongruous growth in volume of foreign indebtedness. In the four years from 1985 to 1988, China's total outstanding foreign debts have been \$15.8, \$21.5, \$30.2, and \$40 billion, respectively, i.e. they increased at an average annual rate of 36 percent. During the same period, foreign exchange revenue from trade and other sources has been \$29.6, \$30.7, \$40.1, and \$47.4 billion, respectively, increasing at an average annual rate of 16.9 percent and obviously at a slower rate than the increases in foreign indebtedness. Even though China's economy grew in recent years at an extraordinarily high rate, external debts have by far exceeded this growth of the economy. In 1988, China's foreign debts grew by 32.41 percent, while its GNP rose by only 11.9 percent.

2) Imperfect coordination in the debt structure. According to relevant data available, the ratio of commercial loans is excessively high in China's aggregate foreign indebtedness. It was around 70 percent during the last four years, while it is on the average only 52 percent among the world's debtor nations. China's foreign debts are fairly uniformly either in U.S. or Japanese currency. Up to 1988, 35.8 percent of all foreign loans were in Japanese yen and 42 percent in U.S. dollars. The fact that the value of the Japanese yen tends to rise continuously, while most of China's foreign exchange revenue is in U.S. dollars, introduces a large exchange rate risk. In 1988, the rise in the value of the Japanese yen caused China's foreign debt to increase by an additional 700 million in U.S. dollars.

3) Unregulated investment orientation of foreign loans. Under the prevailing conditions of an international borrower's market and the multiplicity of potential borrowing agencies in China, the current system of "separate kitchens" [separate fiscal management] as between

local and central authorities lent impulse to local authorities to take out loans for investments and hastened the enormous inflation in the volume of foreign loans. An analysis of the loan structure shows a particularly rapid growth of foreign loans by local authorities and departments. In 1985 these loans almost doubled, in 1986 they grew by more than double, and in 1987 the increase was 76 percent. Among all foreign loans at the end of 1988, not even one-third were centrally contracted by the central authorities. Due to the diminutive and scattered nature of these loans, and the ever declining rank of the borrowing agencies, the mechanism for macro-restrictive control by the central authorities over these foreign investment loans was greatly weakened, and an ever increasing number of unregulated investments ran counter to the state's economic and industrial policies. What happened was multiplicity, duplication, and inflation in items undertaken in parallel by the central authorities and by the local authorities, without consideration for whether they were key projects or not, productive or not, covered or not covered by the plan, and whether they earned foreign exchange or not. In some cases there was even a simple replacement of domestic capital by foreign capital.

4) Lack of central management of the external debt. China's government agencies involved in foreign debt management are the Chinese People's Bank, the State Planning Commission, the Ministry of Finance, the Ministry of Foreign Economic Relations and Trade, and the State Administration of Exchange Control, but there exists no organ with sufficient administrative authority and power capable of centralized management. Too many agencies are capable of contracting foreign loans, as there are the Chinese People's Bank, the Bank of Communications, the Central Trust Corporation, the China Investment Bank, and the International Trust and Investment Banks in Guangdong, Fujian, Hainan, Shanghai, Tianjin, and Dalian. Although the government has specifically designated the State Administration of Exchange Control as in charge of foreign debt management, that administration has been unable to exercise its function of macro-regulation and control of the volume and structure of foreign debts, because of problems in the organizational system and rank levels, so that with all good intentions it proved ineffectual in centralizing control and coordinating the foreign borrowing by the numerous government departments and local agencies.

Due to inability to maintain an optimal volume of investments and most effective investment orientation, the foreign debt problem has by now had certain unfavorable effects on China's economy: First, stringency in the international balance of payments. Providing needed matching funds for foreign loans and the repayment obligation have caused China's already rather precarious international balance of payments to become a real predicament. Second, further worsening in the state of public finances. China's domestic debts amount to 80 billion yuan in RMB (renminbi), and additional pressure

is put on public finance by the obligation to repay annually foreign loan capital and interest to the amount of several hundred millions in U.S. dollars. During the period from 1980 to 1989, total repayments on account of foreign debts was, converted to RMB, an estimated 70 to 80 billion yuan, more or less the same as the financial deficit for that period. Third, intensifying inflation. The use of foreign loans constitutes an extra-distribution of national income. Large loans to import economic resources, to cover the financial deficit, and to be transferred as loans to production enterprises will correspondingly increase domestic currency investments, also increase the amount of domestic currency brought into circulation, and increase circulating funds. It will add to economic overheating and excessive consumption, and will also directly or indirectly accelerate the galloping inflation. During the period from 1984 to 1988, China's GNP increased 70 percent, but incomes of the urban and rural population increased 200 percent, and investments in fixed social assets increased 214 percent. If we look at all the investments in key projects we see that state investments account for only about 20 percent, while loan-related investments account for over 60 percent.

## 2. Comparison of China's Foreign Debt Problem With That of Other Countries and the General Trend

Many different opinions, some positive and some negative, are now being voiced regarding the condition and future trend of China's indebtedness, and generally speaking the pessimists are in the majority. If we merely judge by the volume and growth rate of foreign debts, there are indeed indications that the country is on a disastrous road to a debt crisis, but the debt crisis is not merely due to the problem of borrowing, but has a variety of causes. China's foreign debt problem and its relevant environment is quite different in substance and scope from debt crises in the countries of the Third World.

First, with respect to the debt structure, among all of China's foreign loans, commercial loans and short-term loans account for a relatively small proportion. Up to the end of 1989, medium- and long-term loans and the short-term debts accounted for 89.66 and 10.34 percent, respectively, within the total amount of foreign loans. Among the medium- and long-term loans, the proportion of loans for a period of 10 or more years has increased year by year, and is now exceeding 30 percent. Loans granted at favorable terms by foreign governments and international monetary organizations account for as much as 30 percent of all foreign loans. Besides, maturity dates for China's foreign loans are basically well spaced and rational, and there is no particular peak time when sums would have to be repaid. Conditions are quite the opposite in the case of a country threatened by a debt crisis, where commercial loans and short-term loans would account for a very high proportion, maturity dates would be irrationally spaced, and repayment dates would be very close together. For instance, in 1984, among the



outstanding loans of Argentina, Mexico, and Pakistan, the proportion of commercial loans was 82, 85, and 76 percent, respectively.

Second, with respect to the mechanism for regulating and controlling foreign loans. In China, with its predominantly planned economy, measures of macroeconomic regulation and control of economic activities are very forceful, responsive feedback is very quick, and all this is of major significance in preventing the undisciplined and irregular expansion of foreign borrowing. For instance, when the central authorities enforced economic retrenchment during the first half of 1989, it had an immediate restraining effect on the volume of international commercial borrowing. There was a sharp decline in export credits contracted for with foreign banks and in commercial loans, as compared with the preceding year, also in the growth rate of funds actually used, the percentage points being by 84.4 and 94.1, respectively, and also a 63.1 percent decline in the amount of bonds offered abroad. By the end of December, nationwide imports were \$38.28 billion, which was a decline of 3.9 percent compared with the preceding year, and some unnecessary imports were effectively controlled. The total amount of foreign loans increased by only 3.25 percent, which was very much below the growth rate during the last few years. In these respects, measures of macro-regulation and control in debt-crisis countries would in comparison appear ineffectual, their response would be sluggish, and efforts by these governments to control their foreign borrowing would fall short of final success and they would frequently lose everything in this kind of a chess game.

Third, with respect to the quality of the national economy. Although China is presently still rather short of the "nonmonetary key elements of production," there will probably be a very marked improvement by the time of the Eighth Five-Year Plan, after great infusions (including infusions by foreign borrowing) during the earlier Sixth and Seventh Five-Year Plans. In 1989 China had realized one year ahead of time the Seventh Five-Year Plan norms for raw coal and electric power production; the primary elastic coefficient of energy rose from last year's 0.29 to around 0.7 this year, the elastic coefficient of electricity rose from 0.57 to as high as around one, i.e. up to very close to the normal standard, which to a certain extent explains this point. In spite of the inflation during the last two years, effective control was gained fairly rapidly, and by December 1989 the rate of inflation had already declined to a comparatively low seven percent. This means that continued growth was essentially ensured for the overall national economy and that a material foundation had been laid for repayment of foreign loans. Although China's foreign debts add up to a large absolute figure, compared with the overall capacity of the national economy, the relative figure is still rather small. In 1988 the ratio of China's foreign indebtedness was around 11 percent, while foreign-debt-crisis countries were plunged into stagflation, suffered unyielding high inflation rates, economic slowdown, and low rates of economic growth. During the

period from 1981 to 1987, average economic growth in Latin-American countries, which mainly represent the debt-crisis countries of the Third World, was 1.5 percent, in 1988 even only 0.7 percent, and in 1989 1.1 percent. The average inflation rate was up to 1,000 percent, while in Argentina, Peru, and Brazil the inflation rate was as high as 1,500 to 4,000 percent. According to World Bank statistics based on sample investigations of 90 developing countries, their rate of foreign indebtedness in 1987 was 37.6 percent; it was 55.9 percent in heavily indebted countries, and it was 76.2 percent in the low-revenue countries of Africa. By the end of 1989, foreign debts of the developing countries had reached \$1.3 trillion, and the rate of foreign indebtedness was about 40 percent. The heavy debt load and the economic blight and chaotic market conditions that this situation engendered has seriously damaged the normal economic order in these countries.

Fourth, with regard to the international balance of payments. Even though China has had a trade deficit during the last few years, its foreign exchange revenue has maintained a trend of accelerating growth of an average annual rate of around 17 percent. The state's foreign exchange reserve has in general shown a trend of continuous increases during the last few years; the reserve had been \$14.186 billion at the end of September 1989. It is especially noteworthy that in the two structural components of the national foreign exchange reserve, actual holdings of foreign exchange by the state amounted to \$6.327 billion, which compared with the preceding year, and the year before that, amounted to an increase of 1.6 times and 1.46 times, respectively, and the proportion of these holdings were 44.6 percent, a rise of 22.4 and 13.7 percentage points, respectively. China's increasing potential for earning foreign exchange and its relatively ample foreign exchange reserve enables China to maintain an excellent credit rating. The rate of repayment of debts is now annually close to 10 percent and at the peak of repayment obligations may possibly reach to about 15 percent. China's rate of indebtedness in 1988 was 84.3 percent and declined to 81.9 percent in 1989, which is within internationally recognized safety indices. China is presently one of the most promising international investment markets in the Asia-Pacific region. An accounting of China's international balance of payments for 1988 shows on the capital side that, on the basis of continued surpluses during the last few years, the surplus is now \$7.13 billion. If we now look at countries which are experiencing debt crises we see that the rate of repayment is generally around 40 percent, and in the case of a few countries as high as from 70 to 80 percent; in the case of nine major debtor countries it reached as high as 385 percent. Since the limits of economic tolerance have been reached in some debtor countries, their international balance of payment is extremely unfavorable; they are up to their limits in debt, their credit rating is impaired, and not only are their sources of new capital reduced, but they are also plagued with large-scale flight of capital from their countries. During the period from 1982 to 1988, the net amount of foreign capital used by

developing countries declined from \$104 billion to \$26 billion. Up to the end of 1987, capital abroad of 10 major Latin-American countries amounted to \$243 billion.

Based on the above analysis, I believe that the problems existing in China's debt management are not inevitably all linked to the question whether China is threatened by a debt crisis—and there is indeed no debt crisis in China. After implementing the policy of improving the economic environment and rectifying the economic order, China's strategic choice of foreign debt management and the adjustment of its operational mechanism will have China's foreign debt situation assume an even healthier condition. In this respect, I am fully optimistic.

### 3. Choice of Policy To Perfect Mechanism for Foreign Debt Management

China must take full advantage of the favorable external conditions of the prevailing new trend in international investments and of the increasingly important economic significance of the Asia-Pacific region. On the one hand, China must absorb the experiences and lessons of debt-crisis countries and emphatically and squarely face the problems of its own management of foreign debts. China must, on the other hand, and more importantly, implement a new guiding strategy in foreign borrowing. It must shift the focus of foreign debt management gradually from the control of the quantitative scope to a track of comprehensive qualitative management and promote effective utilization of foreign capital.

1) Strict targeting of borrowed foreign funds. The rational targeting of foreign borrowing is the key to ensure effective utilization of foreign loans. The main principle must be the strengthening of weak links in the national economy, enhancing the logistics for economic development, and nurturing the mechanism for earning foreign exchange and for import substitution. For this purpose it is necessary: First, to ensure, in accordance with the overall outline of the state's industrial policy, that foreign loans are targeted to the best projects which will benefit improvement of the industrial structure of the national economy, bring economic and social benefits, and bring macroeconomic as well as microeconomic benefits. The orientation of foreign loans toward short-term activities must be strictly prohibited. Second, attention must be paid to achieving a rational linkup between the types of foreign loans and the targeted industries. World Bank loans and loans from the Japanese official overseas investment fund must mainly be used for the development of such basic industrial projects as information transmission, energy sources, and communications, as well as for the development of agriculture. Bilateral government-to-government loans must preferably be used for the development of raw material and semifinished material industries. Appropriate control should be exercised over international commercial loans, strict control should be instituted in the management of unused balances; their application should be limited to items of technological transformation that are "short,

fast, and high" [have a short development cycle, fast returns, and high effectiveness], and for current fund turnover; they must not be used for investments in fixed assets. Third, the examination and substantiation of foreign loan projects must be rendered more scientific. At all places and at all levels specialized committees for the evaluation of foreign loan projects should be set up to carry out foreign loan counselling and to enhance feasibility studies of the various projects. In this respect, it will be possible to refer to the analytical methods and administrative procedures of the World Bank in case of loan projects, and China should accordingly evolve scientific methods of investigating foreign loan projects and should normalize these methods in legal form. It will be necessary to gradually study and determine norms for budgeting and assessing the economic efficiency of the use of foreign loans, and to enhance the macro- and micro-management and business accounting of foreign loan projects by means of publishing some economic parameters, such as shadow exchange rates, shadow prices, cash conversion rates for investment capital, etc.

2. Control of the growth rate of the external debt. Judging by some internationally recognized indices, China's present volume of external debt is still maintained within safe limits. However, we must also realize that these indices rely on statistics of experiences and have no international legal basis. Because of the differences of political systems, levels of economic development, and the structures of foreign trade between the different countries, the same quantitative norm may result in different economic manifestations in different countries. In countries where economic policies are not adjusted in good time or where economic structure has not been sufficiently improved, debt crises may occur, although evaluation norms show it to still be within safety limits. In China, where probably no radical improvement will occur in the near future in its fundamental state of great shortage of "key nonmonetary production elements," and in a China with its strained international balance of payments, the national economy has its limits as to its capacity to effectively absorb foreign loans and to take on repayment obligations. Although China may be within the limits of safe indices, it, therefore, still must not increase the volume of its external debt excessively. On analyzing the level and structure of debts that China may take on, it is necessary for China to presently maintain an appropriate volume of external debt while still controlling the excessive growth of foreign indebtedness to: First, adjust its economic plan norms, to maintain a correct growth rate and retrain excessive demand for foreign loans induced by economic overheating. Second, determine fixed limits for external borrowing, limits that must not be exceeded at will. Third, to emphatically restrain medium-scale and micro-scale borrowing activities. Fourth, to regulate the use structure of foreign capital, gradually increasing the proportion of direct investments by foreign firms, reducing the strong demand for foreign loans, and avoiding formation of mechanisms that would speed up an overextension of its indebtedness.

3) Improving the structure of indebtedness. Aiming at China's external debt structure, all efforts to achieve any improvement must pay attention to the following four points: First, strict attention must be paid to the exchange rate risk. We must strive to achieve a plurality of markets in which to raise capital, and a plurality of currencies in our external borrowing. We must pay attention to structuring our external debts in various different currencies, in conformity with the structure of the country's import-export trade and the structure of international exchange reserves. We must promote the forward buying and selling of foreign exchange, debt equity swaps, agreements for shared risks, and other internationally practiced methods. Second, we must revise the method of taking foreign loans. We must adopt the optimal combination of methods for borrowing, so that China's foreign loans are not only secure but also profitable. At the same time as we continue our efforts to receive loans on internationally favorable terms, we should also expand the use of such patterns as accommodation loans, leasing, and import buyer's credits. We must adapt to the trend of having international investments assume the form of securities, strengthen the study of the behavior of the international capital market and must become fully knowledgeable of international changes in finance and of the legal norms in those places where we intend to raise loans, knowledgeable also of international practices. When issuing bonds abroad, attention must be paid to the selection of the main agency handling the issue, to the market at the place of issue, as well as to the choice of time for the issue; great skill and good tactics are essential to get best terms for the bond issue. We must quite courageously use the latest tools employed internationally in financial work and must be flexible in adjusting the currency structure of bonds. When borrowing, it may be appropriate to make supplementary stipulations such as setting a ceiling for interest rates, reserving the right to select different currencies, etc. Third, we must sensibly arrange the maturity dates for all loans. We must avoid having peak times of repayment obligations, must raise China's credit rating and its capability to meet emergencies in the international money market. It is not sufficient to merely exercise control over the volume of borrowing, there also has to be a sensible distribution of foreign loan maturity dates. Optimizing the structural alignment of maturity dates for foreign loans can be achieved in practice by controlling the volume of short-term loans, a sensible arrangement of all short-term, medium-and long-term loans, an appropriate coordination of loan repayment dates and investment recovery times, and in other such ways. Fourth, optimizing the interest rate structure. Since interest rates in the international currency market show large fluctuations, whether the interest rate structure is reasonable or not has a direct bearing on the total expenditure for interests and on changes in the repayment capability. According to the realities of China, to maintain a certain proportion of loans at fixed interest rates, we must as a key concern control the increase of loans at floating interest rates, and also pursue, in borrowing at floating interest rates, a

policy of plurality of basic interest rates. Generally speaking, for medium-and long-term loans we must strive to use fixed interest rates. For short-term loans, when lower interest rates can be expected, we must use floating interest rates, but when interest rates are expected to go up, we must strive for fixed interest rates. When the market shows extremely unstable interest rates, it may also be possible to adopt mixed interest rates. Moreover, it may be possible to reduce or avoid the risks connected with foreign exchange rates by using various methods, such as using export credits in periods when interest rates are falling.

4) Establishing a foreign debt repayment fund. China has three kinds of external debts: centralized state borrowing with centralized state repayment, centralized state borrowing with repayments due from local authorities, departments, or enterprises, and borrowing by local authorities, departments, and enterprises who will then also be responsible for repayment, while the social system determines that it is actually the state who ultimately bears responsibility for repayment of capital and interests. To restrain excessive demand for foreign loans, optimize the external loan structure, build up a machinery that can cope with emergencies in foreign exchange payment obligations, strengthen reserves available for the settlement of accounts on due date, it is necessary to set up a foreign debt repayment fund. This fund can be financed from a variety of sources, a special fund contribution may be charged on every foreign loan according to a predetermined rate, or it can be financed by issuing share certificates of the fund, and also by a certain charge against foreign exchange retentions at the various levels. It is also possible to make available for transfer to the fund some portion of the retained foreign exchange after the project has yielded foreign exchange and the loan has been repaid, some portion of funds that have been drawn from the foreign loan but not yet used on the loan project, or a portion of the medium- or long-term foreign loan that is being recovered ahead of time. Besides, it would be possible to transform into RMB loans the local expenses of projects that do not directly use or use very little foreign exchange, so that the remaining foreign exchange may be paid into the loan repayment fund. To improve its effective operation, the loan repayment fund must be centrally administered by the State Administration of Exchange Control and its branches, and the said administration should take the initiative to organize, with the participation of specialized banks and government departments, a special organ to examine and approve the use of money from the loan repayment fund.

5) Setting up a sound system for statistical control and monitoring of external debts. Statistical work and monitoring is an important component of external debt management. The "Enforcement Regulations Governing Registration of Foreign Loans," promulgated in November of 1989, indicate that the work of statistical control and monitoring of China's foreign loans has been initially put on the right track. One mistake that in some



countries has led to debt crises was that they did not set up effective systems for the statistical control and monitoring of foreign loans. In China, it is only now that statistical control and monitoring of foreign loans has been started, methods are still somewhat backward, experience is lacking, and efficiency is low, and the work is altogether not yet up to the requirements of the huge volume of foreign loans and of the way foreign capital is being used. In order to raise the efficiency of China's system of statistical control and monitoring of foreign loans, it is necessary: First, to improve technical equipment, introduce a computer network, and to watch, forecast, and to promptly analyze and study the changes, the scope, and the structural composition of the international money market, in order to determine for the state's macroeconomic transformation indices of comprehensive monitoring and control of all external borrowing, also a strategy for the entire body of foreign loans, and measures to effectively cope with the situation. Second, to improve the effectiveness of the system for statistical control and monitoring of external debts. Regardless whether the borrowing is direct or indirect, whether borrowing is by an agency within one's territorial confines or not, whether foreign capital is imported directly from abroad, or whether a loan is transferred within China, all external borrowing must come under the purview of the statistical control and monitoring system for the state's external debts.

6) Strengthening centralized management of external debts. It is common practice in all countries to centralize the management of external debt, as a method that is beneficial for strengthening the regulatory and control capability of the central authorities with regard to all external debts. To enhance the centralized management of external debts in China, it is first of all necessary, particularly to cope with the current situation in China, to establish an authoritative organ capable of coordinating mutual relations between all external debt affairs of the state with the plans for economic growth, the financial budget, and the currency policy of the central bank. China must institute a uniform policy, a uniform plan, and uniform management of all external debts throughout the country and fundamentally change some sectors of separation and of division of power between the central and the local authorities in the current system of debt management. Second China must reduce the agencies that are entitled to take out foreign loans, must strictly enforce the system of having local authorities, departments, and enterprises report foreign borrowing to higher authority and obtain permission from higher authority, and must appropriately restrict the qualifications of large corporations and enterprises who may be entitled to issue bonds abroad or organize syndicates abroad for loan purposes. Third, China must enhance its planned management of external debts. Foreign loans that are directly used for social development and for capital construction must be included in the state budget. On the premise that the growth rate of foreign debts will be controlled, the proportion of foreign loans centrally contracted by the central authorities should be

gradually raised to 80 percent of all foreign loans. Finally, China must reform the system of retaining foreign exchange. According to the current system of retaining foreign exchange, the foreign exchange resources, which to begin with are extremely limited, are being scattered and dissipated at various administrative levels and units. In 1988 the foreign exchange controlled by the central authorities was only 40 percent of the total foreign exchange income of the country, while the proportion of foreign exchange at the disposal of provinces, autonomous regions, and directly administered municipalities of the first rank was also on the decline. This was, on the one hand, very detrimental to providing the central government with sufficient foreign exchange to ensure its balance of international payments, and was also apt to stimulate micro-import demand, and to provide impulse for expanded borrowing. Ideas about reforming this system may start out from abolishing the regional favorable terms of retaining foreign exchange and from a reduction of the proportion of foreign exchange that local authorities and enterprises are allowed to retain, and efforts must finally be concentrated to an even larger extent on centralizing all sources of foreign exchange.

#### Effect of Devaluation on Balance of Trade

90CE0517A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 8, 11 Aug 90 pp 55-57

[Article by Liu Rixin (0491 2480 2450) and Xu Jiangping (6079 3068 5493), Economic Research Center, State Planning Commission: "Causes of 'Diminishing Returns' of Renminbi's Devaluation and Possible Ways To Stabilize the Exchange Rate"]

#### [Text] I. RMB's Devaluation in Recent Years

In the last 10 years, the RMB [renminbi] has been devaluated several times in two stages: The years 1979-1983 marked the first phase, and the years 1984-1989 marked the second phase. The first phase of readjustment of the exchange rate began in 1981. The exchange rate was lowered from 1:1.49 in the previous year to 1:1.78. In the next two years, the exchange rate was further lowered to 1:1.92 and 1:1.97, respectively. The direct cause of the 1981 devaluation was the \$2.02 billion and \$1.28 billion, respectively, trade deficit in the previous two years. The effect of that round of devaluation was clear: In 1981, the import and export volume was more or less balanced, with a \$10 million trade deficit. The export volume surged in 1982, producing a \$3.03 billion trade surplus, setting a historic record. The small exchange rate adjustment in 1983 produced another \$840 million trade surplus. Facts proved that the 1979-1983 exchange rate adjustment was a notable success.

In contrast to the previous adjustments, the devaluations during the 1984-1989 period were less than successful. In 1984, despite a sharp devaluation, from 1:1.97 to 1:2.80,

we were left with a \$1.27 billion trade deficit. The exchange rate continued to drop in 1985 and 1986, falling to 1:3.20 and 1:3.72. But they brought no relief. The trade deficit for each those two years was \$14.9 billion and \$11.97 billion, respectively. From 1986, due to rising inflation, some price control measures were implemented. Despite the large foreign trade deficits (\$3.77 billion in 1987 and \$7.71 billion in 1988), the exchange rate remained at 1:3.72 until December 1989, when it was further lowered to 1:4.72. The devaluations in this phase failed to achieve the goal of reducing the trade deficit; instead, they gave rise to a vicious cycle where a large trade deficit led to devaluation which produced an even larger trade deficit and even more drastic devaluations. In fact, devaluation has embarked on the road of diminishing returns.

## II. Causes of Devaluation's Diminishing Returns

### A. Inflation at Home

Devaluation in the 1979-1983 period proved to be a success mainly because the RMB's exchange rate had been over-valued by the tradition system and had been unrealistic. Lowering the exchange rate to a more reasonable level produced remarkable results. Moreover, the inflation rate was low (averaging one - two percent a year) back then, which provided a superb environment for giving play to the effects of devaluation.

Worsening inflation was one of main reasons why devaluation proved less successful after 1984. Prices in the domestic market were soaring, which not only offset the effect of lower exchange rate, making export prices more competitive, but also increased the cost of obtaining foreign exchange for the exporters of commodities. Although the exchange rate continued to drop by more than 10 percentage points each year in 1985 and 1986, the trade deficit surged beyond the \$10 billion mark and still topped \$7.71 billion in 1988. Theoretically, all things being equal, if the RMB's exchange rate is to remain stable, both the RMB and the U.S. dollar must remain relatively stable. If the U.S. dollar is relatively stable and RMB is facing a fairly high rate of inflation, the RMB's exchange rate should be lower by an amount equal to the inflation rate. According to this, inflation had offset the effect of the devaluations in 1985 and 1986 by 50 percent. In 1987 and 1988, prior to changing the exchange rate, the retail price index had risen 7.3 percent and 18.5 percent, respectively. Consequently, by 1988, inflation had brought the exchange rate back to the 1984 level. In fact, growing inflation at home can also diminish the effects of devaluation in the following ways: One, inflation raises domestic product prices. Foreign trade enterprises, faced with higher production costs and lower prices of exports (due to lower exchange rate), will incur serious losses, which will greatly dampen their enthusiasm. Two, inflation entices the domestic enterprises to hoard goods, suddenly shrinking the supply of many export commodities and drying up the source of export goods. These and similar phenomena greatly

diminish the effects of lower exchange rate, and runaway inflation makes further devaluation inevitable.

### B. The Inflexible Import and Export Product Mixes

Lowering the exchange rate is an important policy measure which promotes exports and discourages imports. But one of the preconditions if this measure is to work is that the country must have ample untapped potential to increase export and reduce import. If the mix of import and export goods is fixed, lowering the exchange rate naturally will be of very little use.

If we analyze China's export-mix, we will see that raw materials and goods made from those materials (such as crude oil, agricultural products, and mineral products) account for about 55 percent of China's exports (based on 1989 estimates; same below). First, we have limited ability to increase production, and domestic supply is tight; second, looking at the world market trend, the price of these products is on the decline. Thus, it is certain that the export volume of these goods will not increase significantly. Let us look at textile and garment exports. They account for 25 percent of our exports and are among our best-selling export commodities. But because the developed countries have set quotas to limit the import of these goods, no matter how much we lower the export price, it will not have a significant effect on increasing the export volume. Mechanical, electrical, and communications equipment make up about 20 percent of our exports. The export volume of these goods may increase as the exchange rate drops. But it will take time to improve the technical and organizational standards of the mechanical and electrical industries. In particular, as competition in the world market intensifies and as other countries fortify their trade barriers, it will be very difficult to increase the export volume any time soon.

Looking at the import-mix, there is also little flexibility in reducing import at this time. Capital goods account for more than 80 percent of our imports (preliminary 1989 estimates; same below). Fifty percent of those are raw and processed materials, such as steel, mineral ores, pesticides, raw iron, and chemical fertilizers, which are essential in domestic productions. Technically advanced machinery and equipment account for another 35 percent of the imports. Even if the price of these two product categories should rise, we will not be able to reduce the import volume by much. The remaining 15 percent are everyday necessities, mainly grain (accounts for seven percent) and sugar and other essentials of which we must guarantee an adequate supply. The import of nonessential luxury goods has already been suspended. Thus there is little room for maneuvering to reduce the import volume. Adjustment of the exchange rate may reduce redundant importing of some machinery and equipment, but instead of looking at redundant importing as a price issue, we should look at it as a management problem. By putting import under centralized management, redundant importing can be avoided.

In short, constrained by the current import-export mix, devaluation will have limited effect on promoting export, reducing import, and balancing foreign trade, which is our ultimate goal.

### C. The Local Foreign Trade Contract System

In recent years, the right to import and export various commodities, once monopolized by the state, has gradually been handed down to the localities and enterprises. "Decentralized management" has become a new feature in the foreign trade system. Under the foreign trade contract system, many localities and enterprises have acted only in their own interests, and aiming to get a larger percentage of the retained profit and for more opportunities to travel abroad, they have been competing with one another to raise the purchase price in order to obtain more goods and then undercut prices abroad in order to make more sales. As a result, although many localities have shown increased export volume, their foreign exchange earning has not increased. Under the circumstances, the effects of exchange rate as a lever for regulating import and export are greatly diminished.

Furthermore, subsidies for foreign trade losses, the permit system, quotas, and the presence of the foreign exchange regulation market all play a role to different extents to reduce the effects of devaluation, but we will not go into those discussions here.

### III. Possible Ways To Stabilize the Exchange Rate

Exchange rate is a double-edged sword. While it can promote export or restrict import, it can also bring many negative effects. In China, the negative effects are primarily the following: (a) While it may increase the export volume, devaluation may not necessarily increase our foreign exchange earning. If the rate of increase in foreign exports is smaller than the rate of devaluation, given the same export-mix, the export value will be smaller. (b) As the price of imports rises, pressure will be put on the market to raise domestic prices. The larger the percentage of imported goods relative to domestic demands, the greater will be the effect on domestic prices. It is estimated that imported goods satisfy about 15 percent of the domestic demand. In 1989, the RMB was devaluated by 21 percent, signifying a 27 percent increase in the price of imported goods. It raised the price of domestic goods by four percentage points. (c) So long as the inflation rate at home remains high and the price of exports continues to tumble, more and more foreign trade enterprises will be losing money. In recent years, nearly 30 billion yuan have been spent on subsidizing the money-losing foreign trade enterprises each year. This has become a heavy financial burden for the state. With the continued implementation of the foreign trade contract system, many foreign trade enterprises are unwilling to risk exporting more in fear of losing even more money. Obviously, devaluation can cause many serious problems, and in view of its steadily diminishing returns and increasing constraints, and weighing the pros and cons, it is our opinion that if we hope to put China's

import and export trade on the road to benign development, our long-term policy option is to keep the exchange rate stable. Below are some suggestions:

1. We need to lower the inflation rate gradually, keeping it below double digits during this period of rectification and improvement. This is the primary condition if the spot exchange rate is to be stabilized. Inflation is not only the culprit that makes devaluation necessary but is also one of the causes of devaluation's diminishing returns. Inflation itself is the result of disequilibrium between supply and demand in the domestic market. It is our opinion that lowering the inflation rate should always be the primary goal of rectification and improvement. Thus, we must uphold the general policy of maintaining the "double-tight" fiscal and monetary policies to limit the input of currency and the credit scale and control the bloating consumption and investments. We must not give up the fundamental goals of rectification and improvement just because of some temporary difficulties.

2. We must strive to improve the technological and management standards of enterprises that produce export goods and make sure that Chinese exports are well-made and reasonably-priced. We feel that attempting to stimulate export by lowering the exchange rate is like "tightening our belts" in order to earn a bit more foreign exchange. It is not only a costly method, but the benefits are only temporary. To really put China's exports (made up primarily of processed goods) on the track of a benign cycle, we must plant a foothold on improving enterprises' current technological standards and develop more and better products. Thus, we must change enterprises' short-sighted behaviors, perfect the enterprise contract system, and implement preferential policies in terms of taxation, interest rate, and so on, in order to encourage enterprises to make technological improvements.

3. Foreign trade management rights should be centralized to a degree to end the practice of having many aspects handled abroad, competing among ourselves to undercut prices, and doing things which benefit others while draining our profit. Practice in recent years proved that there are more disadvantages than advantages in over-decentralizing foreign trade management rights. Past experiences also proved that complete centralization of the foreign trade system would not work either. Thus, we suggest putting the staple goods (based on their export volume as a percentage of total export) in each product category under the state's central management, barring all other units from handling those goods. We should make sure that the state is in charge of 60-70 percent of the total export volume. Other than the staple goods, management of medium-sized and small goods should be left to the localities. Considering that foreign trade characteristically has higher quality standards and requires a higher degree of specialization, except for some small goods, units and enterprises generally should not have too much foreign trade management rights. In



this way, foreign trade management can integrate planning and the market organically.

4. We must strive to increase the supply of some everyday necessities in the domestic market and raise the import-substitution rate of ordinary mechanical and electrical goods. Currently, we are still importing massive amounts of grain, sugar, and edible oil, but in fact we have the ability to guarantee self-sufficiency in those goods. Rather than lowering the exchange rate and lowering the price of some goods which are scarce in the domestic market in order to earn foreign exchange, we will be better off if we increase production of these everyday necessities ourselves and import less, as a way to reduce our foreign exchange spending and maintain trade balance. Although our import-mix leaves very little room for cutting back, if we look at the long-term development, there is much potential both for improving the import-mix and reducing the total import volume.

5. We should use prices, taxation, credit, and other economic levers and rely on economic, legal, and administrative measures to further optimize China's import and export product-mixes and achieve overall trade balance as soon as possible. We must be extremely careful when making use of the exchange rate, a "double-edged" sword. The price, credit, and taxation levers are more flexible, and their advantages and disadvantages are easier to balance, and therefore they should be the primary microeconomic means for readjusting the import-export mixes and controlling the total trade volume. Moreover, comprehensive use of economic, legal, and administrative measures can also be very effective.

### Shanghai Develops Foreign Technology Trade

91CE0124C Shanghai WEN HUI BAO in Chinese  
7 Oct 90 p 1

[Article by correspondent Shou Xiaodong (1108 2556 2639) and reporter Zhu Guangming (2612 0342 2494): "Rapid Development of Shanghai's Foreign Technology Trade"]

[Text] Reform and opening up to the outside world have led to a rapid rise in Shanghai's foreign technology trade, with the total value of imports and exports reaching more than \$2.3 billion. This trade has begun to stake out a position on the international technology market, and it has become an important component part of Shanghai's development of an externally oriented economy.

In today's world, technology trade is drawing the widespread attention of the developed countries and the developing countries, and its growth rate is much higher than that of ordinary commodities. After the policy of opening up to the outside world was put into effect, Shanghai in the eighties imported more than 1,500 items of technology and equipment, for which it spent \$2 billion. Up to now more than 1,000 of the items have been put into production, and they have engendered beneficial results in the economy and the society. Many

factories, in conjunction with the transformation of old factories, have imported internationally advanced technologies. A great number of old factories with aging equipment, backward technologies, and high energy consumption have, through transformation, been reborn. Profound changes have been made in the production, technology, and appearance of 19 key industries, including the textile, light, knitting, bearing, electrical equipment, electronic, chemical, metallurgical, medicine, foodstuffs, printing, instrument, machine tool, and plastics industries. In the foodstuffs industry, the situation in which quality was poor, much work was done by hand, and hygienic standards were not met has been changed. Margarine, assorted chocolates, (?Scotch) sugar, French bread, (?croissants) [quqi binggan 2575 1142 7399 1626], soft can foods, soft drinks—new varieties are appearing on the market one after another, giving the consumer filling and rich food. Many of these products are exported to earn foreign exchange. In the "three machines" used by people—television set, recorder, and radio—there are product diversification, stereophony, circuit integration, multifunctional performance, and technical assembly operations. They have been improved in both quantity and quality. In the printing industry, high-speed automation has replaced manual operations, on-line machine movement has replaced single-machine movement, computer phototypesetting has replaced manual typesetting, and offset plate printing has replaced lead plate printing. The printing industry has made the transition from the era of "fire and lead" to the era of "light and electricity."

The secret of Shanghai's success in importing technology is that it had a high level of technology to begin with and that it lays equal stress on software and hardware. When technology is imported, industry and trade work, discuss, and conduct business transactions in conjunction with each other. As a result, the far greater part of such items have reached the international standards that prevailed at the end of the seventies and the beginning of the eighties. Technology import plays an important role in spurring Shanghai's technological progress, in maintaining its sustained growth of industrial production, and in increasing the amount of foreign exchange earned by export. Technological progress has promoted product upgrading and replacement. In three large-scale systems—the electromechanical, instrument, and light industries—after the importation of technology and the consequent transformation that it effected, the proportion of products attaining today's international standards has increased by 50 percent.

Export is an important aspect of technology trade. Although Shanghai started exporting technology fairly late, it has made rapid progress. From 1983—when Shanghai's first technology export, namely, the technology and equipment for producing vitamin A, vitamin B16, (?methanol sodium) [jiachun na 3946 6815 6870], and sulfur pyridine, was sent to Romania—up to now, Shanghai has signed about 150 technology export contracts, having a total value of \$300 million and

accounting for about a third of China's total value of technology export. Shanghai has many categories of industrialized technologies and a strong capacity to form them into complete sets. Thus it has a solid foundation for technology export. A great many of the exported technologies on which Shanghai concludes business transactions are mature industrialized technologies. A large proportion of them are complete sets and production lines, and their strong points are high total value and high add-on value. As of now there are more than 20 kinds of technology that Shanghai exports, including light industry machinery, textile machinery, chemical industry equipment, computer software, and Chinese medicine computerized instruments for diagnosis and treatment. Good business is also being done in the technology and equipment for color television, wrist-watches, tetracycline, and thermal power.

To open up technology markets abroad, Shanghai has begun to move vigorously toward world markets. Through its participation on the international scene in technology fairs and trade fairs, Shanghai is constantly making breakthroughs in promoting sales abroad. Southeast Asia and a great number of developing countries and regions—like Hong Kong, Thailand, Pakistan, Singapore, Malaysia, Bangladesh, Indonesia, Egypt, and Romania—have become the main markets for Shanghai's technology export. The form of technology export has also been developed from the export of pure technology to many forms such as export of technology with equipment, technology with project contracts, technology with advice and service, and technology with shareholding in running joint venture contractual enterprises abroad.

Shanghai is China's major base for industry and for science and technology. It has a large number of organizations for developing technologies for the natural sciences, and it has many people who are highly capable in science and technology. In some important fields of modern science and technology, such as biotechnology, inorganic and nonmetallic materials, and oceanographic projects, there is concentrated in Shanghai China's superior forces. Shanghai has an enormous potential for growth in technology export. To make full use of its technological superiority and to advance into international technology markets, Shanghai is studying and formulating the relevant laws and regulations and the relevant incentive measures in order to make big strides in its technology trade.

#### **Shanghai To Improve Supply to Foreign-Funded Enterprises**

91CE0124B Shanghai JIEFANG RIBAO in Chinese  
12 Oct 90 p 1

[Article by reporter Zhang Zhiyuan (1728 1807 6678): "Municipality's Foreign Investment Commission and Materials Supply Bureau Take Measures To Improve Supply of Materials to the 'Three Kinds of Enterprises'"]

[Text] Yesterday this reporter learned from a meeting jointly held by the municipality's Foreign Investment Commission and Materials Supply Bureau: Shanghai will make further improvements in the supply of materials to the "three kinds of enterprises" [enterprises that are either partially or wholly foreign-owned]; all large amounts of materials in China can be enlisted for this supply, materials in short supply can be supplied as appropriate, and imported materials can be supplied duty-free.

In the spirit of the State Council's relevant documents, Shanghai will permit organizations that are outside the plan to supply an appropriate amount of resources in short supply to the "three kinds of enterprises." Some outside-plan variety specifications that are difficult to meet will be listed as a separate part of the annual materials plan and supplied to the "three kinds of enterprises" at prices set by the market. With regard to materials for which there is less demand by the "three kinds of enterprises," for which the specifications are complicated, and which can be produced in China, the quotas for them are to be found in the quotas given to the localities by the State Planning Commission. The quotas will be sent to the companies that provide materials for the enterprises in which foreign businessmen have invested. These companies will make arrangements for the "three kinds of enterprises" to place orders for these materials. The price difference inside and outside plan are to be handled according to regulations, as are other materials including chemical industry materials.

At the same time Shanghai will permit the materials imported by companies that provide them to enterprises in which foreign businessmen have invested and the materials imported by the "three kinds of enterprises" themselves to enjoy equal treatment. The amount of imported materials needed will be incorporated in the plan by the municipality's Foreign Investment Commission and reported to the Ministry of Foreign Economic Relations and Trade for its examination and approval. Shanghai will also permit imports that are now duty-free to be stored in bonded warehouses, where they will be kept safely by the Customs Service. The municipality's Planning Commission and People's Bank will provide support in the form of loans for the foreign exchange and matching Renminbi needed in the import turnover.

#### **Guangdong Foreign Parts Assembly Sector 'Thriving'**

91CE0081B Beijing GUOJI SHANGBAO in Chinese  
16 Oct 90 p 2

[Article by correspondent Li Zirong (2621 1311 2837) and reporter Luo Jianlin (5012 1696 3829): "Guangdong's Foreign Parts Processing and Assembling Business Continues To Thrive"]

[Text] At the beginning of the opening up to the outside world, Guangdong's foreign parts processing and assembling business took the lead as the main form of industry

in which foreign capital played a positive promotional role. After the passage of 11 years, this business is still thriving.

Because in Guangdong's foreign parts processing and assembling business there are many operational modes and categories, little standardization, good flexibility and mobility, strong utility, quick results, and few risks, in the many ways of importation from abroad that have appeared side by side this business has become more important and more superior. This business of Guangdong's has also taken on its own special features.

First, when selecting processing projects, it is Guangdong's fixed principle to not follow the adage "a hungry person is not choosy about his food." For example, the Zhujiang Delta belt and the coastal cities and counties, upholding the principle of "first improving and then developing," encourage the starting up of projects that have scientific and technological models, that are high grade, and that bring good economic and social results. With its superior investment climate, Guangdong has rapidly developed the foreign parts processing and assembling business, and the healthy development of this business has itself promoted the further improvement of Guangdong's investment climate. Many foreign businessmen have been made to see that a foreign parts processing and assembling business put into Guangdong can be successful and profitable. Therefore, since the first half of this year, the trend for Taiwan businessmen to make investments has continued to rise. In Dongguan City alone, 59 new contracts for processing materials coming from Taiwan were signed, an increase of 133 percent over that of the same period last year, and the time span on many agreements was 10 or more years. In the past in many places factories and roads were built to await the entry of the foreign businessmen's raw materials and their machinery and equipment. Now, the foreign businessmen are very enthusiastic about building the factories themselves. This situation not only gains time but also solves for the locality the problem of tight supply in capital construction funds.

Among the processing projects for which new contracts have been signed, the processing of small- and medium-sized incoming materials is still made primary. Of the 463 incoming materials processing projects for which Dongguan City signed new contracts in the first half of this year, 441 were projects in which foreign businessmen had invested less than HK\$300 million, accounting for 95 percent of the total. When Guangdong's foreign parts processing and assembling projects import technological equipment, the practice of the foreign businessmen not setting prices is made primary. For example, Guangzhou City in the first half of this year signed new contracts for the importation of equipment with a total value of \$21.14 million, of which those in which the foreign businessmen had not set prices were valued at 15.37 million, 72.7 percent of the total. In the first half of this year, the total value of new contracts signed in Guangdong Province in which the foreign businessmen did not set prices was \$428.65 million,

accounting for 92 percent of the total value of the equipment imported under the contracts and being an eight percent increase over that of the same period last year.

In the first half of this year, in Guangdong Province more than 20,000 enterprises started foreign parts processing and assembling businesses. Their income and industrial payment fees totaled \$21.35 million, more than 3,500 new foreign parts processing and assembling enterprises were registered, 9,485 new contracts (agreements) were signed, and 63,000 processing and assembling contracts were registered and recorded with customs, respectively being increases over last year's figures of 31.2, 20, 21, and 12.5 percent. Guangdong's foreign parts processing trade has become one of the important mainstays for maintaining an appropriate measure of growth in the province's industrial production.

#### **Guangzhou's Potential for Expanding Labor Exports**

91CE0096B Guangzhou GUANGZHOU RIBAO  
in Chinese 21 Oct 90 p 1

[Article by Zhang Jiajin (1728 1367 6651) of Guangzhou's Commission of Economic System Reform: "Take Initiatives To Expand Labor Export Markets"]

[Text] The exportation of labor is an important part of the reform, opening up, and invigoration of the economy, yet it is still a new and developing business in China. In the past two or three years Guangzhou coordinated foreign aid projects and sent over 1,200 laborers to 23 countries and regions. It earned a considerable amount of foreign exchange and made definite achievements. However, in light of Guangzhou's economic strength, geographical location, and population resources, this is still far from enough. Last year, Guangzhou exported less than one-third the number of laborers that the city of Jiangmen exported.

Why is Guangzhou's progress in this area so slow? How can it expand labor exports? This writer believes we must fully recognize the importance of labor exports in opening up to the outside world. Some comrades only pay attention to earning foreign exchange through product exports, and ignore labor exports as a way of earning foreign exchange. As a result, their awareness of participating in competitive international labor market is weak, and they have not considered labor exports as a business. It is well known that the worldwide trade volume of international labor exports today amounts to \$600 billion annually, or a quarter of total world trade. The international flow of laborers is over 20 million annually, which forms an enormous international labor market. With the aid of this big market, many countries' economies have developed rapidly. China is the country with the richest labor resources, and thus should have great potential in this regard.



We should reform and improve the administrative system. The current management system basically follows methods which have been used to provide economic aid to foreign countries. The channels for labor exports are very narrow, simple in form, and very restricted. Labor management departments have not yet become involved in labor exports. Units which dispatch laborers abroad cannot meet and sign contracts directly with laborers. Management of the supply and demand for labor exports is disjointed, which affects not only the speed at which laborers can be dispatched abroad, but also how well laborers are selected and dispatched. Therefore, this writer believes that labor management departments should actively participate in labor exports. Under the premise of unified management, efforts to export labor should be coordinated. At the same time, different forms and methods of management should be used for different types of labor exports, such as contractual projects to aid foreign countries or other general labor exports.

The procedures for exporting labor should be simplified. Looking at how Guangzhou has exported laborers to more than 20 countries and regions, we see that there are many different channels and procedures to go through. Most countries, particularly developed countries in Europe, North America, and elsewhere, require laborers to hold private passports. Thus the single method of issuing business passports to laborers being sent abroad is unsuitable, and does not meet the needs of the situation. At present, issuing private passports to laborers sent abroad is an important method for expanding international labor markets further. Issuing private passports to exported laborers means that Chinese with foreign citizenship, overseas Chinese, compatriots from Taiwan, Hong Kong, and Macao, and foreign friends may invite their Chinese relatives, hometown neighbors and friends, or any laborers they need to come from Guangzhou to their country or region to work, or to go to a third country which issues visas. Recently provinces and municipalities such as Shanghai, Fujian, Zhejiang, and Wuhan have started organizing and doing just that. They have made relatively great progress and breakthroughs in their labor exports, and have achieved relatively good results.

We must still strengthen the coordination mechanisms further, and work out an information consultation service, so that we can expand into the world labor market in all directions. Based on our current information, we must actively explore and develop other channels of information, and expand Guangzhou's information sources on labor exports. The municipality should immediately establish an information center for labor exports. It should be responsible for sorting, handling, storing, and communicating information on labor exports, in order to provide better consultation services for labor export companies and corporations engaged in foreign economic and trade activities.

### More Exports of Manufactured Goods to Japan Expected

9ICE0124A Beijing GUOJI SHANGBAO in Chinese  
6 Nov 90 p 1

[Article by Xu Changwen (1776 7022 2429): "Japan's Economy Continues To Grow—China Can Look Forward to Expanding Its Exports of Manufactured Goods to That Country"]

[Text] For more than three years in a row Japan's economy has maintained a fairly high rate of growth, and China can look forward to expanding its exports of manufactured goods to that country.

Since the beginning of this year there has been a continuation of the momentum of growth in Japan's private consumption. From January to June consumer spending rose 4.9 percent over that of the same period last year, and it was 2.8 percent higher than that of all of last year. It is estimated that this year private consumption will be 4.5 percent higher than it was last year, and much higher than last year's 3.2 percent growth. The reasons for the sustained growth of Japan's private consumption are: First, income growth and prices have been fairly stable. Second, to adapt Japan's enterprises to the changes in the international economic situation, particularly the changes in the development of international financial markets, there has been an increase in the number of enterprises that operate 24 hours a day. Third, Japanese enterprises are constantly putting out goods that meet the consumer's demand.

Since the beginning of this year, in Japanese industry there has been a growing trend for investment in equipment. According to a recent survey by NIHON KEIZAI SHIMBUNSHA, equipment investment this year will still be in second place, an 18 percent increase in the manufacturing industries and a 15 percent increase in the nonmanufacturing industries, for an average increase of 16 percent. The reason for the growth in equipment investment, besides the satisfying of the continued growth of demand in private consumption, is that, following the development of science and technology, the enterprises, to lower costs and raise the productivity rate, constantly develop new goods and renew equipment in order to beat the competition.

Because of the sustained growth of Japan's economy, since the beginning of this year foreign trade has also been constantly expanding. According to statistics, in terms of yen, in the first half of this year Japan's exports and imports respectively increased 12.8 and 21.2 percent compared to what they were in the same period last year; but, in terms of dollar, exports fell 1.4 percent and imports only rose 5.6 percent. Japan's foreign trade in the first half of this year clearly reflected its growing import of manufactured goods. Imports of manufactured goods rose 8.6 percent, higher than the 5.6 percent rise in total imports in this period. In the first half of this year, the proportion of manufactured goods in Japan's total imports set a new record in history, reaching 5.1 percent.

In the import of manufactured goods the largest rise was in machinery-type products, being 29 percent higher than in the same period last year; next were nonferrous metal products, which rose 15.3 percent. From a look at the countries and regions from where the products were imported, we see that the largest rise was in European countries, being 26.1 percent; next were America, 15.7 percent, and the ASEAN countries, 12.4 percent. Imports from the "Four Small Dragons" (Hong Kong, Taiwan, South Korea, and Singapore) of Asia, on the contrary, fell 9.6 percent. In summation, the reasons for the growth in Japan's import of manufactured goods are: a sharp increase in domestic demand, the vigorous opening up by foreign enterprises of markets in Japan for manufactured goods, and the return and sale in Japan of products made by factories abroad set up by Japanese investment.

It is estimated that, because of the strength of the yen's rate of exchange at the present time, the effect of the current oil prices on Japan's economy will not be very great. Accompanying the future growth of Japan's economy, its import and export trade will continue to expand, and in particular there will be a further rise in its import of manufactured goods. If China makes unremitting efforts in its production and export of manufactured goods, it will achieve new successes in its exports to Japan.

#### **Jiangsu Expands Export-Oriented Industry**

OW2211170290 Beijing XINHUA in English  
0720 GMT 22 Nov 90

[Text] Nanjing, November 22 (XINHUA)—East China's Jiangsu Province has been expanding its export-oriented industry from coastal areas to inland regions.

According to local statistics, nine cities, 40 counties and 1,129 townships in the province have contacts with overseas businesses, and 49 counties and cities have foreign-funded enterprises.

In the south of the province some joint ventures have been established in villages, including some in remote regions.

During the first ten months of this year the province earned foreign exchange totaling 2.44 billion U.S. dollars, up 20.5 percent over the corresponding period of 1989.

By the end of September 944 companies either solely foreign-owned or co-operative or joint ventures had been approved for establishment in Jiangsu, and 442 of them are already in operation and have begun to recover their investment.

Governor Chen Huanyou said that the 1980s saw the mushrooming of township enterprises, which greatly boosted Jiangsu's economy. And the 1990s should see the province quicken its pace in penetrating world markets, he forecast.

The combined output, revenue and exports of the major cities of Nanjing, Suzhou, Wuxi, Changzhou, Zhenjiang, Yangzhou and Nantong account for 70.4 percent, 83.1 percent and 91.4 percent, respectively, of those of the whole province.

#### **Shanghai Issues Foreign-Investment Restrictions**

HK2611022390 Hong Kong SOUTH CHINA  
MORNING POST (BUSINESS POST) in English  
26 Nov 90 p 1

[By Geoff Crothall]

[Text] The Shanghai municipal government's ceiling on wages in Sino-foreign joint ventures is the latest in a long line of measures designed to restrict the freedom of foreign investors in the city, foreign businessmen say.

The regulations, limiting wages to 150 percent of equivalent managerial positions in the state sector, run completely contrary to the new guidelines for Pudong, which in theory guarantee the freedom of foreign enterprises to determine their own wage policies.

"It's time to stop talking about how wonderful Pudong is going to be in 20 years' time and to start improving the situation on the ground now," one disgruntled businessman said.

"That's the only way they are going to attract more foreign investment."

Most businessmen in Shanghai consider the mayor, Mr Zhu Rongji, to be sincere in his determination to make the city a better place for foreign investors but local protectionist interests and diehard central planners in Beijing are making life very difficult, they say.

"In many ways, the government is becoming increasingly schizophrenic in its attitude to foreign investment," and American manager said.

"On the one hand, they make all these public pronouncements about Shanghai 'new new financial capital of Asia,' while, at the same time, they are trying to turn foreign enterprises into inefficient state-run enterprises."

Recent regulations concerning the role of communist party organisations within Sino-foreign joint ventures have only served to compound fears that ideological concerns may start to take precedence over economic and commercial concerns in the day-to-day operation of joint ventures.

Speaking in Hong Kong last week, the foreign affairs adviser to the Shanghai government, Mr Li Chuwen, tried to calm investors fears by saying the restrictions on wages were a "regrettable necessity" designed to prevent a brain drain from the state to the private sector.

One Shanghai-based businessman pointed out this was a slightly disingenuous argument given the state sector was

"bloated with staff," two to three times more than were needed and many of whom were under-utilised and "warehoused" for use in emergencies.

The real reason for the new regulations was the "red-eye disease" of managers in the state sector who can't stand the sight of people in the private sector earning more than them, the businessman said.

The regulations would make it increasingly difficult to recruit good staff because of the high incentives needed to lure people out of the security of their "iron rice bowls" in the state sector, he said.

Mr Li stressed the ceiling was not fixed and could be raised if the foreign enterprises proved they were efficient, to which the businessman countered: "Why should we prove to them we are efficient, wage policy should be our decision and our decision alone."

Foreign investors are worried Shanghai is becoming the laboratory for new restrictive legislation which could eventually be applied to the whole country.

"If they carry on like this, foreign enterprises will be little different from state-owned concerns and that will be a disaster for foreign investment in China," a European manager said.

#### Hebei Plans 4 Export Centers Near Bo Hai

*(JW 2911190890 Beijing XINHUA in English  
0916 GMT 29 Nov 90)*

[Text] Shijiazhuang, November 29 (XINHUA)—Four export production centers will be built in Tangshan-Qinhuangdao-Cangzhou Bohai Bay Open Economic Zone of Hebei Province, north China, in the next three years.

The four are: the Jidong Cement Export Production Center, the Qinhuangdao Glass Export Center, the Tangshan Household Ceramics Export Center and the Tangshan Building Materials Ceramics Export Center.

These export centers are being built to their parent enterprises which are also located in the zone.

The economic zone, including Qinhuangdao, Tangshan and Cangzhou cities, as well as 12 counties, was set up after it was approved by the Chinese State Council in 1988.

#### Foreign Loans Approved for Cement Industry

*HK3011024290 Beijing CHINA DAILY in English  
30 Nov 90 p 2*

[By staff reporter Zhang Yuan]

[Text] A batch of foreign loans is to flow into China to aid the country's building materials industry, CHINA DAILY learned yesterday.

The loans would be provided by Canada, Denmark, Spain and the World Bank, according to an official with the State Administration of the Building Materials Industry.

Li Taoping, director of the administration's Foreign Economic Affairs Department, said the 37.89 million Canadian dollar (about \$32.41 million) mixed loan had already been approved.

"This is the first foreign loan for a Chinese building materials project since last June," Li said.

The Canadian governmental loan, 30 percent of which was interest-free, would be spent on building a cement plant in North China's Shanxi Province, he said.

The plant, the biggest foreign-funded cement project to be built in China since 1979, would be located at Lucheng in the south of the province.

The money would help pay for the latest cement manufacturing equipment and technology to be imported from Canada and Switzerland, Li said.

Construction work was scheduled to start next August and the plant was due for completion by the end of 1993.

The other three loans were currently being negotiated with foreign counterparts.

The most significant was the \$78 million loan to come from the World Bank, he said.

It would help pay for the construction of three large cement plants in Tongling, Anhui Province, Ningbo in Zhejiang Province and Nanjing in Jiangsu Province.

## ECONOMIC ZONES

#### Xiamen's Tax, Profit Separation Experiment Reaps Results

*91CE0087B Beijing JINGJI RIBAO in Chinese  
12 Oct 90 p 1*

[Article by reporter Wang Zhangfang (3769 7022 6912): "Stabilize the Allocation Relations Between the State and Enterprises—Xiamen City's Tax and Profit Separation Experiment Reaps Results"]

[Text] Xiamen's experiment with "separating taxation from profit" which began in 1988 has played a very positive role in stabilizing the allocation relations between the state and enterprises, enlivening enterprises, and promoting the SEZ's economic development.

"Separation of taxation and profit" is an extension of the "substitution of taxation for profit delivery" and the "contract system." Xiamen City takes advantage of the unique trait of continuous development of the foreign-invested enterprises [FIE's] in the SEZ, and in accordance with the reform concept of equalizing the income tax burden of domestic and foreign-funded enterprises,



it has adjusted the state-run industrial enterprises' income tax rate and abolished the regulation tax. It has implemented the system of after-tax debt payment and is setting each enterprise's profit delivery norm individually. Since the experiment began, it has had positive results in all areas. Authoritative sources suggest that the positive effects of the separation of taxes and profit are found in the following areas:

**It stabilizes the state's income:** On the one hand, the state levies income tax from enterprises in its capacity as society's manager, and on the other hand, it also collects dividends from enterprises in its capacity as owner of the state's assets. In terms of the total revenue, the state's income decreases as the income tax rate is being adjusted downwards, but it can make up the difference with the profit delivered by enterprises under the after-tax contract system. Thus, the state's revenue remains stable. The city's state-run industries paid 49.77 million yuan in taxes in 1989, 13.5 percent more than in 1987, before the experiment began. Meanwhile, since enterprises' before-tax debt payment has been replaced by after-tax debt payment, it has increased their tax base, and the state's income has, therefore, also increased.

**It invigorates enterprises and sustains continuous increase in industrial production:** after the separation of taxes and profit, enterprises now have more say in the use of their retained profit. This further extends their right of self-determination and has aroused their enthusiasm in increasing production and profit. In the two years since the experiment began, the city's state-run enterprises have seen their profit increase at an average rate of 22 percent a year. For the years 1988 and 1989, enterprise retained profits were 110 million yuan and 130 million yuan, respectively, a 2.5-fold and 3-fold increase, since the experiment began. Enterprise production and development funds have increased substantially, totalling more than 160 million yuan. Investments in technological improvements in the two years since the experiment began have increased the GVIO [Gross Value of Industrial Output] by 350 million yuan and tax revenues by 102 million yuan.

**It promotes enterprises' thorough reform:** The fact that state-run enterprises and FIEs now pay the same tax rate enables enterprises of all kinds to compete on equal footing and encourages the state-run enterprises to look to themselves, implement thorough reform, strengthen management, and tap potential in order to increase profit. In the last two years, most state-run enterprises have made structural adjustments, they are linking wages to profit and have entered into mergers and implemented reform in different areas. They are very much invigorated. Many plant supervisors say, "Today, the tax rate is the same for everyone. Now we must count on our own intensive ability."

The development of the export-oriented economy is facilitated because domestic and foreign-invested enterprises have the same tax burden, state-run enterprises are encouraged to expand their foreign market. Today,

many enterprises have won the right to conduct import and export businesses. Xiamen has a fledgling SEZ foreign trade system which consists of state-owned specialized companies, local foreign trade companies, and state-run industrial enterprises with import-export rights.

### Experts Commend Shenzhen's Price Reform Efforts

91CE0087A Guangdong NANFANG RIBAO in Chinese  
10 Oct 90 p 7

[Article in "New Collected Essays" column entitled "Respect the Law of Value and Comply With Market Regulation—Experts and Scholars Discuss Shenzhen City's Restructuring of the Price System"; the first paragraph in italics is a source-supplied introduction.]

[Text] **Editorial Note:** Recently, a group of experts and scholars from Guangdong Province conducted an on-the-spot study of Shenzhen City's work on restructuring the price system. They gave high marks to Shenzhen's price reform experience and achievement. Shenzhen is not like any other region, and its methods and experience may not be right for the others, and they should not simply copy Shenzhen. But Shenzhen's experience has indeed broadened our minds. Here, we have selected the essays of several experts and scholars for our readers' reference.

Guan Qixue [7070 0366 1331] (professor, Department of Social Sciences, South China Institute of Technology)

In a planned commodity economy, whether, and how, planning and the market can be integrated, and at which point will the two integrate are questions that require clear answers during the restructuring of the economic system. Recently, I travelled to Shenzhen to learn more about the circulation of agricultural products and about Shenzhen City's price reform experience. The greatest reward on this trip is that I have come to understand the relationship between planning and the market much better, and many important questions regarding this relationship have now been answered.

First, the socialist market is created and developed under the guidance of planning. Although the SEZ has long decontrolled prices, in order to accomplish the "market basket" project and guarantee the supply of agricultural, sideline, and fresh and live products in the market, Shenzhen City has drawn up and effected a plan to encourage the production of agricultural, sideline, fresh and live products. It has opened an agricultural products wholesale company, a wholesale market—the Buji Agricultural Products Wholesale Market, and scores of orderly agricultural goods retail markets, all strategically located, so that the circulation of agricultural products can play a role in promoting production and guaranteeing supply.

Second, planned guidance must find its starting point as well as its resting point in the market. The way Shenzhen City handles the relationship between planning and the

market has given new substance to planned management. Planned guidance not only includes the drawing up of plans but, more importantly, it includes the implementation and fulfillment of those plans. The formulation and implementation of plans are based on the market: (a) they take into consideration the needs of the international and the domestic markets; (b) they give play to the advantages of linking up with the interior provinces to attract and bring out-of-town agricultural products to Shenzhen's market; (c) although wholesale prices in Shenzhen's agricultural goods market fluctuate with supply and demand conditions, the Administration of Commodity Prices still makes public the median prices everyday to guide the wholesale market's transactions; (d) they modify the plans and the implementation measures promptly as the supply and demand of commodities change spontaneously according to the law of value.

Furthermore, the integration point of planning and the market depends on how much we rely on and utilize the law of value. In a planned commodity economy, the law of value is the foundation shared by the planned mechanisms and the market mechanisms. The only difference is, market regulations are the result of the spontaneous regulation of the law of value while planning is the conscious application of the law of value. Shenzhen's production and circulation of agricultural products are able to form a benign cycle because the city respects and makes use of the law of value to unite planning and the market internally.

**Huang Liwu** [7806 4539 2976] (*director of the Bureau of Foreign Relations, the Provincial Administration of Commodity Price*)

The main reason Shenzhen is able to establish a new economic order that complies with the law of value is the presence of the fairly well-developed Buji Agricultural Products Wholesale Market. It not only provides a place where agricultural products from all over the country can be brought to Shenzhen but also creates the conditions that make retail market management easier. It is the foundation of a new, standardized economic order in the production, circulation, exchange, and sales of commodities. From the perspective of the development and perfection of market management in the future, the focus should be on raising the wholesale market's management standards:

1. We should accelerate the second phase of the Buji Agricultural Products Wholesale Market. The second phase consists of cold storage facilities, processing plants, specialized railroad routes, and service-type buildings and housing. These facilities are indispensable if we hope to expand the wholesale market's capacity and balance supply and demand. Only if these tasks are accomplished can we balance supply and demand, stabilize the market, and eliminate the severe price fluctuations, and only then can we reinforce the system where wholesale prices guide retail prices.

2. Shenzhen City's economy is founded on an export-oriented economy. It is facing the domestic as well as

international markets. If we can increase the capacity of its wholesale market, if the agricultural products wholesale company has the right to conduct business in both the domestic and foreign markets, it will enliven circulation even more and bring more goods to Shenzhen. With the necessary material base, the existing management system can be strengthened and further developed.

3. We must vigorously develop facilities to provide information and supply the producers and managers with timely production cost information, supply-demand information, price information, and consumption information. We should also open up a futures market gradually. These are reliable measures in giving play to the role of wholesale market management.

**Shi Qizhi** [4258 0796 1807] (*assistant professor, Zhongshan University's School of Management*)

Shenzhen's practice provides us with the following useful hints:

One, it has dissipated the misconception that the SEZ's market is a completely free market and that its prices are completely decontrolled. It tells us that the SEZ will establish a managed market and will adopt managed prices. This type of market and market prices can be decontrolled and can be enlivened.

Two, it has imparted deeper understanding of the integration of the planned economy and market regulation. The integration of the two is organic and broad. The "market basket project," the state-owned enterprises' operation of the agricultural and sideline products wholesale market as a joint-stock venture, the systematic opening of markets and the expansion of commodities supply channels, and the Administration for Industries and Commerce's and the Administration of Commodity Prices' strengthening of the organization and management of the retail markets are concrete examples of the organic integration of planning and the market.

Three, the SEZ's price reform holds steadfastly to the socialist direction. Specifically: (a) it gives full play to the leading role of state-owned enterprises and also emphasizes the supplementary and beneficial roles of the individual economy and private economy; (b) it gives play to the positive role of the state's government departments as well as the positive roles of enterprises in all economic forms and of the individual workers; (c) it safeguards not only the producers' and managers' interests but also the consumers' interests; (d) it respects the objective demands of the laws and the mechanisms of the commodity economy and also gives play to the regulatory functions of the socialist government; (e) it utilizes the regulatory measures of the commodity economy and also attaches importance to the socialist law, administration, discipline, and its ideological and political education.

**Song Zihé** [1345 1311 0735] (*professor, CPC Guangdong Provincial Party Committee Party School*)

The most vivid impression of Shenzhen's agricultural products wholesale market and retail market is that they

are "managed but not rigid and lively but not chaotic," a situation we have talked about but have not been able to achieve before. How did they accomplish this? What are Shenzhen's important experiences? The following are my own views:

First, Shenzhen has given the "management" of market prices new meaning and substance, that is, it caters to the development of the commodity economy, respects the needs of the law of value, and manages for the sake of "putting an end to chaos" and not to impose rigid control. Through this kind of "management," it has put a stop to all sorts of speculations and profiteering, illegal operations, and activities to reap illegal profit, and it provides services and protection to facilitate lawful business activities.

Second, it respects the law of value and takes into consideration the interests of the producers, managers, and consumers alike. Shenzhen's agricultural product wholesale prices are determined by the buyers and sellers in face-to-face negotiations. Transactions are consummated only if both the producers' and managers' interests are served. This is the spontaneous regulation of the law of value and the law of supply and demand. The state-run wholesalers act as "reservoir" and are the main channels through which price increases can be restrained. It gives expression to the guiding role of economic planning. With respect to the price differential between wholesale and retail, a method of setting the "differential rate" plus a fixed margin is used, so that while the businessmen are ensured a legal profit, the consumers' interests are also protected.

Three, the management of Shenzhen's agricultural products market uses a combination of economic, administrative, and legal measures and integrates them with the vigorous development of ideological and political work. It reflects the simultaneous effort to emphasize the two civilizations.

Four, Shenzhen's market management is integrated organically with price management. During Shenzhen's organizational reform, the Administration of Commodity Prices and the Administration for Industries and Commerce have been merged to make market and price management uniform. The two branches promote each other and are organically combined to strengthen management and to improve efficiency. Meanwhile, managers of both administrations have set high standards for themselves and are making an effort to discipline themselves. A rudimentary supervisory mechanism has been established.

**Li Chunhong** [2621 2504 3163] (*director of the Office of Macroeconomics, Provincial Restructuring of the Economic System Department*):

We are very much inspired by our preliminary inspection of Shenzhen City's efforts to strengthen price management in the agricultural products market. I would like

to make the following suggestions regarding ways to perfect the agricultural products market and price management:

1. We should increase information guidance in the agricultural products market. For example, we should provide information on supply-demand situations and the types, quantity, and prices of agricultural products in the high season and off season and provide timely information to the producers (local and out-of-town) and managers (especially those of large accounts) so as to guide production, purchases, and sales. In addition, we can use the Buji Agricultural Products Wholesale Market as base and develop a contingent of agents to act as go-between to help buyers and sellers exchange information.

2. We should further perfect the agricultural products wholesale market. For example, we should accelerate the construction of wholesale market service facilities to improve the business environment for the managers. Or we can perfect the market's pricing system. We can set up auction counters for the main product categories (especially vegetables) inside the wholesale market and put the market managers in charge. The buyers and sellers negotiate prices openly to reveal the final prices, so that the managers cannot report phony prices and jack up the market price, alienating the consumers' interests.

3. We should set up an agricultural goods futures market step by step. The production and supply of agricultural products are very susceptible to seasonable and weather changes and can be very unstable. In order to keep supply and demand in Shenzhen's agricultural market fairly balanced in the long-run and keep long-term prices fairly stable, we should set up a staple agricultural products futures market. Shenzhen has an economic system that is open to the foreign as well as domestic markets and has all the market facilities to set up an agricultural products futures market. In the near-term, it can set up a futures market for rice first as an experiment, and after it has gained some experience, it can expand the market to cover other staple agricultural products.

### **Economic Development Zone Set Up in Chang Jiang Area**

OW'2211031090 Beijing XINHUA in English  
02:23 GMT 22 Nov 90

[Text] Beijing, November 22 (XINHUA)—China has set up an economic development zone on the upper reaches of the Yangtze River [Chang Jiang], an area rich in natural resources, CHINA YOUTH NEWS reported today.

The zone covers 68 counties in Sichuan, Yunnan and Guizhou Provinces, where the population is booming and ecological conditions deteriorating—causing frequent natural disasters.



Abounding in water resources, the paper said, the zone has 72 types of minerals, accounting for 53 percent of the country's total, and more than 7,000 species of animals and plants.

Its verified coal reserves total 153 billion tons.

The three provinces have already set up a committee to make special studies of 10 projects. The committee has also set up ties of economic and technical co-operation with companies and enterprises outside the zone.

### **Liaoning Plans Economic Zone Along New Expressway**

OW2311191890 Beijing XINHUA in English  
1458 GMT 23 Nov 90

[Text] Shenyang, November 23 (XINHUA)—China's Liaoning Province, one of the country's largest industrial areas, is planning the construction of a new economic zone to be located along the Shenyang-Dalian Expressway which opened two months ago.

The 375 km expressway, currently the longest of its kind in China, runs parallel with the Harbin-Dalian Railway and north to south across the province. The area surrounding the expressway is rich in agricultural and mineral resources and has a solid industrial base, a convenient communications network, and a rich cultural and a high educational level.

The new economic zone will encompass the 17 counties along the expressway, and surrounding counties and will cover an area of 46,000 sq. kilometers. The focus of the zone will be on county and township economic development which signals a turn in the province's past economic strategy of favoring urban economies and the development of big enterprises.

The new zone is projected to increase the area's gross national product to 43 billion yuan (RMB) by the end of 1995—twice that of 1989. The zone is also expected to develop into one of the country's most advanced areas by the end of this century.

### **Zhuhai Speeds Foreign Investment Approval Process**

OW2411104690 Beijing XINHUA in English  
0813 GMT 24 Nov 90

[Text] Guangzhou, November 24 (XINHUA)—Since the south China open city of Zhuhai opened its Foreign Investment Management Service Center the time required to receive investment permission has been reduced from two to six months to five days.

In April of this year, the city government established the center in a bid to provide greater service efficiency on examination and approval of foreign-funded enterprises.

The representatives from more than ten departments gathered in [as received] to seek ways to establish a joint work system. They conducted two small examination

and approval meetings, and a joint meeting once each week to review projects in line with national regulations.

Two effective measures were adopted to guarantee a smooth procedure: One measure was the appointment of a vice-mayor to be in charge of the center and the other was to improve the flow of examination and approval procedures.

The center further provided foreign investors or enterprises with comprehensive services such as the policy information and the recommendation of co-operative partners.

Statistics reveal that the center has received over 1,000 foreign investors, and has examined and approved over 330 projects which represent a total investment of 200 million U.S. dollars.

### **Shenzhen Financial Market Records Good Performance**

OW2411083790 Beijing XINHUA in English  
0738 GMT 24 Nov 90

[Text] Shenzhen, Nov 24 (XINHUA)—A local bank official reports that the Shenzhen financial market has performed well and that available funds have met the needs of industrial and commercial enterprises and have promoted local economic development.

Luo Xianrong, director of the Shenzhen Branch of the People's Bank of China, said that the Shenzhen financial market has achieved remarkable success in four areas this year:

- deposits have increased by 3.8 billion yuan, while loans have increased by 3.2 billion yuan;
- banks recovered over 800 million yuan from circulation in the first 10 months this year, and expect to recover an additional 100 million yuan by the end of the year. The combined recovery amount will establish a record in Shenzhen;
- even though the Shenzhen financial market was overheated, it has not had the effect of reducing bank deposits, which indicates that the market attracted funds from other areas;
- consortium loans organized by Chinese and foreign banks have increased and have served to promote the development of large construction projects in Shenzhen, and have reduced the risks of individual banks.

Luo said that the state has reduced interest rates several times this year, and that banks in the zone have made interest rate reductions in the special economic zone amounting to 500 million yuan. This has also helped to invigorate both industrial and commercial enterprises.

Shenzhen's industrial output value reached 12.5 billion yuan in the first 10 months this year—35 percent more than in the same period of last year.

### Foreign Investment Rises in Coastal Cities Jan-Sep

HK2611105790 Beijing CEI Database in English  
26 Nov 90

[Text] Beijing (CEI)—The total foreign direct investment projects signed during the first nine months of this year increased by 16.7 percent to 1,118 in the 14 coastal open cities.

According to the State Statistical Bureau, this involved a total fund near 600 million U.S. dollars, representing a rise of more than 30 percent over that of last year.

Meanwhile, foreign-funded projects in the four special economic zones of Shenzhen, Xiamen, Zhuhai and Shantou reached 1,260 with 370 million U.S. dollars, 20 percent more than the same period of last year.

Statistics showed that the output value of foreign-funded enterprises in coastal open cities increased by nearly 50 percent while that in Shenzhen, Zhuhai and Xiamen was up by 4.3 percent.

The total exports in these cities and zones took up 28 percent of the country's total during the first three quarters of this year.

By the end of September this year, the total industrial output value of the 14 coastal open cities registered a rise of 2.1 percent to 207.08 billion yuan while that in four special economic zones and Hainan Province increased by 18 percent to 25.04 billion yuan.

### Shenzhen Mayor Discusses Development SEZ Rate

OW2711184090 Beijing XINHUA in English  
1449 GMT 27 Nov 90

[Text] Shenzhen, November 27 (XINHUA)—Shenzhen will develop at an even faster rate in the next 10 years, according to Mayor Zheng Liangyu here today.

Speaking to Chinese and foreign reporters who are in the city to attend the celebration activities marking the 10th anniversary of the establishment of the Shenzhen Special Economic Zone (SEZ), the mayor disclosed that the development of Shenzhen in the next decade needs a total of 50 billion yuan, greatly surpassing the 18.2 billion yuan investment in the SEZ in the past 10 years.

The local administration and enterprises will have to raise the money by themselves, absorb foreign investment, and utilize bank loans, shares and other negotiable securities, said the mayor.

The construction of nine kinds of basic facilities such as government institutions, a port and a new railway station are being carried out at present.

The mayor predicted that the total industrial output value of the city would reach 15.8 billion yuan this year, an increase of 31.9 percent over last year, while the total

volume of exports would amount to 2.8 billion U.S. dollars-worth, up 28.8 percent over last year.

Zheng also announced the city's five targets for the year 2000.

First, the per capita gross national product of the city will reach or be close to the present standard of the average developed countries;

Second, it will become one of the country's leading export bases;

Third, it will be a successful pilot zone for reforms of economic and political structures;

Fourth, it will become a model area in promoting socialist culture and ideology;

Fifth, it will become an area which can fully demonstrate the superiority of the socialism.

## TRANSPORTATION

### Shandong Reports Development of Largest Local Port

SF 3011131190 Jinan DAZHONG RIBAO in Chinese  
18 Oct 90 p 1

[By Yu Guangyi (0060 1639 5030) and Liu Hongyi (0491 7703 0308): "Longkou Port Becomes Largest Local Port of China"]

[Text] To meet the needs in opening to the outside world, the Longkou Port Office has actively adopted measures to intensify its construction in various fields, thus expanding its cargo handling capacity rapidly. In the past five years, more than 270 foreign ships came and left the port, and more than 1.14 million tons of cargo were handled. From this January to September, 60 foreign ships came and left, and 400,000 tons of cargo were handled, showing an increase of 56.75 percent and 130 percent, respectively, over the amounts of 1989. In this way, Longkou port became the largest local port of our country.

At the beginning, Longkou port had very simple facilities and a very low capacity. In the past few years, in face of the new situation in opening to the outside world, the port adopted every means to collect more than 100 million yuan to build three 16,000-ton-class deep-water berths, and one 5,000-ton-class berth, increasing its berths from 10 to 14, and its annual cargo handling capacity from some 3 million tons to 6 million tons. Mechanized operation of the port has exceeded 80 percent. The port has become a medium-sized multipurpose port. In August of this year, it successfully anchored a Cyprus 33,000-deadweight-ton cargo ship called "(Niceter)." So far, it has opened the international routes linking to more than 10 countries and regions, such as Japan, the Soviet Union, Korea, Philippines, Singapore, Bangladesh, Indonesia, and Hong Kong.

### **Tianjin Port To Build Five More Deep Water Berths**

OW2211181090 Beijing XINHUA in English  
0723 GMT 22 Nov 90

[Text] Tianjin, November 22 (XINHUA)—Five more deepwater berths of 20,000 dwt to 50,000 dwt are planned for the Beijiang harbor area of Tianjin Port.

The completion of the berths will add 2.5 million tons a year to the handling capacity of the port.

The construction will take five years and cost 570 million yuan (about one million U.S. dollars).

Tianjin Port now has 40 cargo berths. Of them, 28 are 10,000 dwt deepwater berths mainly handling sundry goods, containers, iron and steel, grain and salt.

Five berths which are now under construction will go into operation by the end of this year.

And the port is also building another six berths which are scheduled to go into operation in 1992.

### **Freight, Passenger Transport Industries Show Decline**

HK2611035390 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 26 Nov 90 p 3

[Text] Both freight and passenger transportation continued to ride a downward curve in the first nine months of this year, according to the State Statistical Bureau.

The statistics showed that total freight volume in the first nine months slid 3.1 percent to 1.922 billion tons.

In the breakdown, rail freight inched up 0.4 percent to 1.101 billion tons while truck freight plunged 8.6 percent to 423 million tons.

Shipping sank 6.5 percent to 398 million tons while air freight was up 12.2 percent to 247,000 tons.

The turn-over of freight—an important indicator in monitoring unit labor productivity and economic efficiency—increased 4 percent to 1,665.22 billion ton-kilometres.

Of the total, the railways saw a 2.8 percent rise to 791.45 billion ton-kilometres while truck freight turnover plunged 14 percent to 25.93 billion ton-kilometres.

Shipping turn-over rose 4.9 percent to 847.29 billion ton-kilometres while air freight turn-over soared 12.1 percent to 556 million ton-kilometres.

Statistics on passenger volume and turnover were also dismal in the first nine months of this year.

In that period, 3.99 billion passengers were carried, a drop of 7.4 percent from the same period last year.

In the breakdown, 716 million passengers travelled by train, a drop of 20.4 percent, while 3.12 billion passengers took the bus ride, a drop of 3.1 percent.

Also, 141 million people travelled by boat, down 19.7 percent, while 11.14 million people flew by air, an increase of 24.5 percent.

With the sharp decline in passenger volume, the turnover of passengers also witnessed a steep drop of 12.8 percent to 362.81 billion person-kilometres.

Of the total, the railways saw a 19.3 percent drop to 196.35 billion person-kilometres while bus travel witnessed a 4.8 percent decline to 139.75 billion person-kilometres.

Boat travel turnover fell 18.8 percent to 11.49 billion person-kilometres while air travel turnover rose 12.1 percent to 15.22 billion person-kilometres.

### **New Model of Yun-7 Plane Makes Successful Maiden Flight**

OW2611175090 Beijing XINHUA in English  
1516 GMT 26 Nov 90

[Text] Xian, November 26 (XINHUA)—A new model of the Yun-7 plane made by the Xian Aircraft Industry Corporation made a successful maiden flight today in Xian, capital of northwest China's Shaanxi Province.

The new plane is an improvement on the old Yun-7 and incorporates many new technologies. Its wings, body, engines, screw and landing gear have been improved and its electronic instruments including communication, navigation and automatic piloting devices were imported from Germany and the United States.

It is expected that the new medium- and short-range planes will be put into use after 1992 for various purposes.

The Yun-7 planes are the most popular ones used in China's civil aviation. The prototype was made in 1984.

## **AGRICULTURE**

### **Sichuan Hog Output**

91P30050A Chengdu SICHUAN RIBAO in Chinese  
27 Oct 90 p 1

[Summary] During the first through the third quarter of 1990, Sichuan Province removed 35,127,000 hogs from stock, a 5.2 percent increase over the same period in 1989; pork output was 2,207,000 tons, an increase of 109,000 tons. At present, there are 69,591,000 hogs in stock, a 1.4 percent increase over the same period in 1989.



**Yunnan Grain Procurement***91P30048E Kunming YUNNAN RIBAO in Chinese  
17 Nov 90 p 1*

[Summary] As of 5 November, Yunnan Province had procured 550,180,000 kilograms of contracted grain, fulfilling 59.1 percent of the plan and 292,630,000 kilograms of grain were procured at negotiated prices, an increase of 16,210,000 kilograms over the same period in 1989. Farmers were paid in cash and no IOU's were issued.

**Jiangsu Autumn Grain Area***91P30048C Nanjing XINHUA RIBAO in Chinese  
13 Nov 90 p 1*

[Summary] As of 12 November, the autumn grain area in Jiangsu Province was 44 million mu and the rape area was 7 million mu.

**Anhui Cotton Procurement***91P30048D Hefei ANHUI RIBAO in Chinese 8 Nov 90  
p 1*

[Summary] As of 5 November, Anhui Province had procured 131,150 tons of cotton, fulfilling 76 percent of the task; estimated gross output of cotton for the year is 210,000 tons, a 24 percent increase over 1989. The cotton area exceeds 4,500,000 mu and the area sown to fine varieties is 3,557,400 mu. The planned cotton area for 1991 is 5 million mu.

**Problems for Yunnan Tobacco Industry***91CE0041C Kunming YUNNAN RIBAO in Chinese  
17 Sep 90 p 2*

[Article by Zhang Kaihan (1728 7030 3352) "The Predicament Facing the Yunnan Tobacco Industry and the Solutions"]

[Text] Startling changes have taken place in the Yunnan tobacco industry in the past 10 years. Many economic indicators which were once matters of midlevel importance nationwide have become leading economic indicators: The volume of flue-cured tobacco procured, cigarette output, cigarette sales, industrial and commercial taxes realized on "the two tobaccos," and the quantity of foreign exchange produced are five leading economic indicators of primary importance to this industry in every province, municipality, and autonomous region across China. Tax revenues have grown faster than output, and the decade has truly been a golden age. However the Yunnan tobacco industry also faces many difficulties involved in developing "two-tobacco" enterprises, and now finds itself in a predicament: The conflict between grain and tobacco is growing more and more prominent and to a certain extent has limited increases in the output of flue-cured tobacco and improvements in quality. Yunnan is mountainous and has a limited amount of arable land. For various reasons

grain output has long hovered around 18 billion jin per year, while population has been increasing and construction has been eating up arable land year after year, creating a grain shortage that must constantly be remedied through grain transfers from other provinces. Currently, only about eight percent of the land in Yunnan is earmarked for tobacco, and most of it is mountainous land rather than flat, high-yield grain fields. This is essentially a reasonable mix, considering the interdependence between grain and tobacco, the fact that each makes up for the shortcomings of the other, and the fact that they help each other forward. However, as soon as problems appear in grain production, tobacco is driven farther up into the hills, so that its output and quality are difficult to stabilize. We should define a concept of development in which "tobacco promotes grain, and grain and tobacco are coordinated with each other." If we fail to adopt the correct attitude toward tobacco it will unavoidably affect "two-tobacco" development.

Accessory goods and materials, especially tow and panzhi are in short supply, directly affecting filtered tobacco production. In Yunnan the tobacco industry is in the forefront and advancing rapidly, but the accessory industry is lagging behind. It is as though the tobacco industry were fighting in isolation with no rear-guard reinforcements, making further growth difficult. Certain major accessory and packaging materials such as compound fertilizer, cigarette paper, aluminum foil, printing paper, filter-tip materials and so forth, must be purchased abroad or in other provinces. Each year we use \$70-80 million in foreign exchange to import accessory materials from abroad, and we pay 400 million yuan to purchase them from other provinces. In recent years, although we have cooperated with the relevant departments to develop some accessory industries, the huge gap between supply and demand has remained.

A severe funding shortage and rising interest rates limit "two-tobacco" production and management in Yunnan. The corporate system currently has fixed assets of 1 billion-plus yuan, circulating funds account for an average of 4 billion yuan, and there is only 204 million yuan in private funding. That is to say 95.5 percent of all funding depends upon state loans—nearly all of which carry floating interest rates—and interest on these loans amounts to 300 million yuan per year. To double the supply of famous-name, top-quality tobacco, enterprises would have to age their stores of expensive top-quality leaf tobacco an extra two years. They would need to store 600,000 dan of first-class tobacco, at a cost of nearly 300 million yuan—or 600 million yuan for two years. As production grows, the amount of funds tied up would increase further.

Market competition is growing more intense. As nationwide cigarette production increases the market for cigarettes will become saturated and competition will grow even fiercer. This will directly threaten the development of tobacco enterprises in Yunnan, we must fully recognize this fact and give it the highest level of attention.

The "two tobaccos" are a mainstay of the economy in Yunnan, and we must not allow any "mishaps" to happen. As for how we are to develop from here, I feel that we must firmly establish a guiding ideology focussed on sustained, stable, coordinated development. Our main direction of attack should be to raise product quality, improve the level of management, and increase overall economic returns. We should continue to enhance the advantages of tobacco, prudently maximize the cigarette product mix, insist upon marketability, take steps suitable to local conditions in order to develop accessory industries interrelated with the "two tobaccos," and create a new order in which the "two tobaccos" are primary and the various industries complement each other, help each other forward, and develop in a coordinated, synchronized fashion. We must train a larger, strongly competitive, economically remunerative industrial complex and do all we can to raise the tobacco industry to a new level in Yunnan.

As we decide that, with respect to the Yunnan tobacco industry, the focus for the Eighth Five-Year Plan and the next 10-year program should be on promoting scientific and technological advances, and as we arrange and organize leaf-tobacco production, we must continue to implement basic policies to stabilize the cultivation area, target quality, improve unit yields, and increase returns. As we arrange and organize cigarette production, we must pay attention to the overall balance, adjust the product mix, insist on high quality and marketability, decrease depletion of goods and materials, and improve economic returns. As for product development strategy, we must focus on developing cigarettes made with flue-cured tobacco, upgrade the types of flue-cured tobacco we offer, stabilize the variety of cigar types, and develop blended and curative types of tobaccos. In cigarette sales we should persist in developing both retail and wholesale markets, making services more comprehensive, lowering and limiting prices, making business operations more flexible, participating in competition, making information accessible, and developing output and sales in a coordinated fashion.

### **Jiangxi Grain Output**

91P30048B Nanchang JIANGXI RIBAO in Chinese  
1 Nov 90 p 1

[Summary] The average per mu yield of grain in Jiangxi Province this year was 297 kilograms, an increase of 10 kilograms, or 3.5 percent over 1989, and gross output will be about 16,500,000 tons. The area sown to cash crops was 13 million mu, an increase of 2,750,000 mu, or 26.9 percent over 1989.

### **Hebei Reorganizes Cotton Procurement Procedures**

91CE0041B Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 5 Oct 90 p 2

[Article by Zhao Yongjin (6392 3057 6855): "To Safeguard Cotton Profits and Ensure that Allocation and

Transfer Assignments Are Fulfilled, Hebei Reorganizes Cotton Procurement, Allocation, and Transfer Procedures"]

[Text] Special dispatch, Shijiazhuang (XINHUA)—In order to safeguard procurement procedures and guarantee that cotton procurement, allocation, and transfer assignments are fulfilled, the Hebei provincial government and associated departments recently studied and adopted a series of forceful measures.

The cotton production situation in Hebei has been better in 1990 than it was in 1989. The cotton crop is coming along well in most districts, except those few where output has been affected some by wind and hail damage. Projections from prefectural and municipal surveys indicate that cotton output should increase more than 10 percent this year over last. However, the Hebei provincial government's analysis of cotton procurement problems that arose in 1989 led it to conclude that several unfavorable factors continue to affect cotton procurement in 1990, and that there is a hidden danger of disorder in procurement procedures and mass stampedes to purchase cotton. As a result the provincial government recently studied and adopted the following measures:

Leadership over cotton procurement, allocation, and transfer tasks will be strengthened. The provincial government made the following proposals: in principle, no new procurement stations may be established in adjacent border regions in 1990; procurement stations which are disrupting procurement procedures because they were originally established too close to the border should take the initiative to relocate away from that area; and localities that do not cultivate cotton shall not be permitted to establish cotton procurement stations. Procurement of all Hebei cotton will be centralized through one supply and marketing cooperative and be managed jointly at the provincial and prefectural level. No cotton markets may be established and there will be no two-track pricing system. The Department of Industrial and Commercial Administration and Management will detain anyone who purchases or deals in cotton unlawfully and hand confiscated cotton over to local cotton and flax companies for compulsory purchase at the state-fixed price. The cotton will then become part of the state procurement and marketing plan. Fines will be imposed according to regulations.

Cotton procurement policies will be conscientiously enforced. Downgrading cotton, forcing prices down, or inciting panic buying at artificially inflated prices are prohibited. At the same time, we must make appropriate arrangements for local implementation of preferential measures. Policies adopted locally to encourage the development of cotton production, such as those giving cotton farmers preference in grain rations and agricultural supplies, should be reflected in the production process. They should not be evaluated in terms of money and calculated into procurement prices or allocation and transfer prices, nor should there be value-added

markups. We must do a good job of publicizing and explaining whatever we promise to honor at the time of purchase. All cotton sales vouchers left until February 1991, after procurement has essentially been completed, must be honored. We must treat this as a matter of discipline to be observed strictly and never violated.

We will uphold policies assigning responsibility for cotton allocation and transfer tasks. Given the current shortage of cotton, each level of government must consider the broader interests of society and strengthen its emphasis on planning, acting in earnest to ensure that cotton procurement tasks are successfully completed. We must guarantee to complete allocation and transfer assignments in all cases where the quantity of cotton procured reaches allocation and transfer base figures. In 1989 some prefectures and municipalities delayed the transfer of cotton; this year they must make up whatever amount is owed. No unit or individual is allowed to keep a small cotton warehouse, nor are they permitted to draw upon state stores of cotton without authorization. Any portion that a prefecture or municipality has an excess of that needed to complete assigned unit procurement quotas must not be used without authorization and verification from the Hebei Planning Commission and the provincial supply and marketing cooperative. We must rigorously ferret out all cases where the capability exists to fulfill allocation and transfer goals but the plan remains unenforced or cotton is intercepted for selfish uses or sold outside the state plan. Correspondingly, we should countermand cost markups or any negotiated price differentials that encourage outside sales of this commodity.

### Hebei Farmers Plant Less Wheat

91CE0041A Beijing JINGJI CANKAO in Chinese  
23 Sep 90 p 2

[Article by staff correspondent Xue Mingkun (564) 2494 2492]: "Exchanging Two Kilograms of Watermelon for One Kilogram of Wheat—Enthusiasm for Wheat Cultivation Lags Among Hebei Peasants"]

[Text] From the end of the year until the beginning of autumn Hebei peasants are always impatient to fertilize the soil in preparation for planting wheat, but this year they seem unusually calm. As of the middle of August many fertilizer sales outlets for supply and marketing cooperatives and chemical fertilizer plants in central and southern Hebei were still empty and desolate, and most peasant households had yet to purchase chemical fertilizer for their wheat fields. This is due to the fact that, because grain prices are down and chemical fertilizer is expensive, peasants are unwilling to buy fertilizer for wheat fields.

In August 1989 wheat returned 1.1 yuan per kg to farmers in the central and southern portions of Hebei, whereas this August it sold for only 0.7 yuan per kg—down 36 percent. A survey of 20 peasant households revealed that in 1989 they planted a total of 110 mu of

wheat, to which they applied base fertilizer at the rate of 13.5 kg of ammonium phosphate and 41 kg of ammonium hydrogen carbonate per mu, whereas this year they plan to cultivate 90 mu and use 26 percent less fertilizer per mu than last year.

In many wheat producing districts shrewd peasant households that have specialized in melons, vegetables, and fruits or that have gone into small retail businesses peddling woven wicker products or clay pottery have begun to do business exchanging their commodities for wheat. One small tractor-load of watermelons hauled to the village gate can be exchanged within two or three hours for more than 10 gunny sacks full of wheat. The melon sellers say "At 3 jiao per kg, we cannot sell a truckload of watermelons in a full day, but if we exchange 2 kg of watermelon for 1 kg of wheat the truckload will be gone by noon. We figure that this way we earn a greater profit than by taking only cash." There is also another intent left unspoken: they will dispose of the wheat only when the price goes up, thus earning double the profit.

The decline in wheat prices is certainly not the result of normal market fluctuations, rather it is induced by local economic separatism and artificial blockages of circulation channels. On the highways there are a great many checkpoints that seriously disrupt commodity circulation procedures. In the south there are gross disparities among market prices for agricultural and sideline products, to the extent that there will be shortages in one place and rotting piles of overstocks in another. And at many freight stations the trucks should be sidelined to the garage rather than doing long-distance hauling. In many southern cities wheat flour is very expensive, while in the north wheat is languishing unsold in peasant households. Wheat production requires chemical fertilizer, but many fertilizer plants and sales departments have suppressed prices to the point where there is almost no profit to be earned, yet they still cannot sell it fast enough to prevent natural spoilage from occurring in fertilizer warehouses and open-air depots.

### Shaanxi Urges Farmland Capital Construction

HK2611033990 Beijing CHINA DAILY in English  
26 Nov 90 p 3

[By staff reporter Ma Lie]

[Text] Xian—Officials in Shaanxi Province have been urged to make greater efforts in capital construction of farmland to speed up agricultural development.

The call came from Bai Qingcai, governor of the province, at a provincial rural working conference last week at which he told delegates there were still 270,000 rural households living without enough food and clothing.

Shaanxi, located on the Loess Plateau in Northwest China, has been hit frequently by droughts and floods,



Bai said, adding that natural disasters had played a key role in the province's lagging behind others in agricultural development.

Despite a steady increase in production in the past decade, the province's total grain output last year averaged only 331 kilograms per person, 38 kilograms less than the national average.

Bai said that to speed up agricultural production, the province had planned to turn 5 million mu (330,000 hectares) of farmland into irrigated fields in the next five years so as to increase irrigated land to 20 million mu (1.33 million hectares).

Efforts would also be focused on improving the condition of another 5 to 7 million mu of farmland, making it less vulnerable to natural disasters such as droughts and floods.

This would bring higher yields even without irrigation systems, Bai said.

The province would also make efforts to expand fertilizer production so that annual capacity could meet total demand across the province.

Foreign aid, Bai said, had also been introduced to help Shaanxi fulfill its plans.

The province had just won a \$30 million loan from the World Bank to support 27 agricultural projects involving sericulture, oil crop planting and maize processing.

And an irrigation project financed with a World Bank loan had already been started last year in Yulin County in northern Shaanxi, Bai said.

### Hubei Crop Harvest

4IP30048A Beijing NONGMIN RIBAO in Chinese  
7 Nov 90 p 2

[Summary] This year's output of fruit in Hubei Province exceeded 200 million kilograms, a decline of 90 million kilograms from 1989. Gross output of jute and ambari hemp and ramie was only 115 million kilograms, a decline of 33 million kilograms from 1989. The major reason for the decline of hemp output is that farmers were discouraged by the low procurement price last year, the hemp area declined from 860,000 mu in 1989 to 640,000 mu. Silkworm cocoon output was 144,000 dan, an increase of 37,200 dan over 1989. Tea output was 606,000 dan, an increase of 40,600 dan, the tea area exceeded 1,200,000 mu, an increase of 80,000 mu over 1989. Aquatic output exceeded 700 million kilograms, an increase of 5.3 percent over 1989.

### Jiangxi Fruit Exports

400:0011E Nanchang JIANGXI RIBAO in Chinese  
7 Nov 90 p 1

[Summary] This year Jiangxi Province has exported 3,000 tons of citrus fruit to the Soviet Union, an increase of 500 tons, or 17 percent over 1989. These exports are expected to earn \$1,131,000 in foreign exchange.

## EAST REGION

**Ge Hongsheng Appointed Zhejiang Acting Governor***OW 1911154490 Beijing XINHUA in English  
1528 GMT 19 Nov 90*

[Text] Hangzhou, November 19 (XINHUA)—Ge Hongsheng, 59, has been appointed vice-governor and acting governor of Zhejiang Province, east China.

The appointment was made recently following a secret balloting held at the 19th meeting of the Standing Committee of the Zhejiang Provincial People's Congress. The People's Congress examined and accepted the resignation of Shen Zulun, former governor of the province, before making the new appointment.

Ge Hongsheng previously served as the deputy secretary of the Zhejiang Provincial Committee of the Communist Party of China (CPC) and as an alternate member of the 13th CPC Central Committee. Ge formally held positions as the director of the Zhejiang Provincial Bureau of Electric Power, the deputy director of the provincial Economic Commission, secretary of the Ningbo City CPC Committee and as a member of the Standing Committee of the provincial CPC Committee.

**Shanghai To Screen, Rectify Social Organizations***OW 2411105090 Shanghai City Service in Mandarin  
2400 GMT 20 Nov 90*

[From the "Morning News" program]

[Text] Shanghai Municipality will soon launch a drive to thoroughly screen and rectify social organizations. At a mobilization meeting held on 20 November, Xie Lijuan, vice mayor and head of the municipal social organizations screening and rectification leading group, said, "In carrying out this work, we must adhere to policies, act strictly according to law, and correctly draw the line between legal and illegal social organizations, legal incomes earned by social organizations while carrying out their legal consultation services, and that derived from profit-motivated operations." Earlier, the experimental screening and rectification drive was conducted on some 2,000 social organizations in Shanghai.

It was announced at the same meeting that 10 societies for legal persons in Shanghai, including the Inventors Society, and four societies for nonlegal persons, including the Shanghai Calligraphers Society, have been approved for registration after examination.

**Shanghai Holds Meeting To Correct Corruption***OW 2911222390 Shanghai WEN HUI BAO in Chinese  
21 Nov 90 p 1*

[Text] The party committee for the municipality's transportation work and the municipal government's transportation office held a meeting yesterday afternoon to

improve party workstyle, strengthen the building of a clean government, and correct the unhealthy atmosphere in business. The party committee and the transportation office called on the municipality's 320,000 transport, postal, and telecommunications workers resolutely to stop the unhealthy practice of using motor vehicles, boats, tickets, and telephones for personal gain and to help establish a good image for Shanghai's major land, sea, and air departments and its postal workers.

In recent years, the transport, postal, and telecommunications system has done a lot of work and obtained definite results in improving party work style, promoting clean government, and correcting the unhealthy practices in business. During yesterday's meeting, the municipality's party committee for transportation work specifically pointed out the major points in correcting unhealthy business practices. It is necessary to correct in a determined manner the practice of those monopoly-type enterprises which use motor vehicles, boats, tickets, and telephones to gain personal profits, and the practice of those law enforcement departments which use power for personal gains and engage in blackmail and other violations of law and discipline. Units and individuals who embezzle money, break the law, squander public funds on banquets, set up roadblocks to collect fees, engage in blackmail, misuse power for personal gain, or break the law while enforcing it should not be tolerated and must be severely punished. For unrepentant units and individuals, investigations should be conducted to fix the responsibility of their leaders to enforce party, government, and legal discipline, eradicate the evil wind, and foster a good atmosphere.

The municipal party committee for transportation work and the transportation office asked civil aviation, railroad, shipping, postal, and telecommunications units to improve and strengthen internal and external supervision mechanisms. If conditions permit, steps should be taken gradually to divide the power and implement cross-section management, position rotation, and collective discussions, review and approval systems in certain important work posts and links, like the ticketing offices of road, sea, and air transport and housing distribution and telephone installation departments that have wide contact with the community, to better prevent the occurrence of unhealthy practices by placing them under legal and democratic supervision.

**Hunan Government Delegation Visits Shanghai***OW 2411213590 Shanghai City Service in Mandarin  
2400 GMT 22 Nov 90*

[By station reporter Zhu Yaosheng, from the "Morning News" program]

[Text] Huang Ju, deputy secretary of the Shanghai municipal party committee and executive vice mayor of Shanghai, had a meeting yesterday with the Hunan government delegation headed by Chen Bangzhu,

deputy secretary of the Hunan provincial party committee and governor of Hunan.

Comrade Huang Ju said that Hunan's support for Shanghai has been enormous. Whenever Shanghai suffers shortages in food grain, pork, and other foodstuffs, Hunan always comes to our help.

Acting on behalf of the people in Shanghai, Huang Ju expressed his wholehearted thanks for Hunan's energetic support.

Comrade Huang Ju briefed the comrades from Hunan on Shanghai's economic affairs and the progress in developing Shanghai's Pudong District. Huang Ju encouraged Hunan to join Shanghai in developing the district.

Governor Chen Bangzhu said that Hunan will give its logistical support to the Pudong development in terms of grain, nonstaple food, and construction materials. He said he hoped the development of Pudong would promote Hunan's economic development.

#### **Shanghai Stresses Strengthening of Public Order**

OW0112112990 Shanghai City Service in Mandarin  
1000 GMT 28 Nov 90

[By reporter Wang Liang]

[Text] The Shanghai Municipal CPC Committee and the municipal government held a joint meeting today on comprehensive consolidation of public order. The meeting held: While the anticrime drive is underway, it will be necessary to consolidate public order in an all-around fashion. The goal is to ensure (words indistinct), rid both the root causes and symptoms of social ills, and bring a better public order to the city in this winter-spring season.

Ni Hongfu, deputy secretary of the municipal party committee, and Liu Zhenyuan, vice mayor, attended and addressed the meeting.

Ni Hongfu said that, all in all, Shanghai enjoys stable public order without any big security problems occurring in any major activity this year. However, it should be noted that the anticrime drive has only begun to bear results and that the public order is still in a very grim situation.

Ni Hongfu said it is necessary to abide by the guiding ideology that calls for efforts to fight against crimes on the one hand and to consolidate public order in an all-around manner on the other.

Ni Hongfu suggested that attention should be focused on the following six areas in a bid to elevate Shanghai's public order to a new level: first, enhancing efforts to comprehensively consolidate public order at grass-roots level; second, busting major cases, arresting fugitives, and combating embezzlement; third, carrying on the campaign against pornography and six social vices;

fourth, strengthening administration of nonnatives; fifth, enlisting the public's participation in the drive to comprehensively consolidate public order; and sixth, placing those who have either been reeducated or reformed through labor as well as administrating and converting criminals.

#### **Antipornography Campaign Bears Results in Anhui**

OW0212174190 Hefei Anhui Provincial Service  
in Mandarin 1100 GMT 29 Nov 90

[From the "Provincial Hookup" program]

[Text] Anhui Province has made remarkable accomplishments in its antipornography campaign over the past year. Preliminary purification was achieved in cultural markets around the province.

The campaign has gone smoothly because party committees and governments at all levels have attached great importance to the work and various departments have coordinated closely with each other.

News stands and audiovisual shops were consolidated. In the past year, more than 700,000 contraband publications and over 200,000 forbidden audiovisual tapes were confiscated throughout the province. A total of 475 illegal newsstands and bookstores were banned, along with 619 houses showing videos and 536 audiovisual outlets. In addition, cases that involved the production, sales, and distribution of pornographic articles as well as illicit publication were uncovered, which dealt a blow to the criminals involved. In all, 422 such cases were exposed throughout the province, and 43 people were given prison terms.

Newspaper offices and publishing houses also were consolidated, which led to the suspension of four questionable periodicals and the closure of three newspaper offices. Publishing outlets and printing shops were screened and registered.

The yearlong efforts tentatively purified cultural markets around the province and won praise from the public.

### **CENTRAL-SOUTH REGION**

#### **Hainan Holds Foreign Economic, Trade, Investment Fair**

OW0512022990 Beijing XINHUA in English  
0147 GMT 5 Dec 90

[Text] Haikou, December 5 (XINHUA)—The opening ceremony of Hainan Province's first foreign economic, trade and investment fair attracted nearly 200 foreign and 1,300 Chinese businessmen Tuesday.

The province will negotiate 200 projects, which embrace energy, machinery, electronics, light industry, textiles,



metallurgy, building materials, chemicals, agriculture, foodstuffs, medicine, and tourism, during the five day fair.

The projects which are open to foreign investment and cooperation, are outlined in feasibility study reports and cater to the development of the export-oriented economy in Hainan. These projects are also aimed at fully tapping the local resources.

Related import and export materials and products will be exempt from allocated quotas and license requirements.

At the fair, relevant economic, industrial and commercial, and trade departments will coordinate efforts to approve projects. The approval procedures are expected to take half a day.

## NORTH REGION

### Taiwan Compatriots Federation Meets in Beijing

SKD412135890 Beijing BEIJING RIBAO in Chinese  
26 Oct 90 p 1

[Text] More than 1,300 representatives of Taiwan compatriots in Beijing gathered together on 25 October to attend the fourth congress of the Beijing Municipal Federation of Taiwan Compatriots.

It has been three years since convocation of the third congress of the municipal Federation of Taiwan Compatriots. For years, the federation has extensively united with Taiwan compatriots and has done much work to consolidate and develop the municipality's political situation, which is characterized by stability and unity. It has enlivened the economy of the capital and promoted reunification of the motherland. Members of the federation have taken the safeguarding of Taiwan compatriots' legal rights and interests as their own duty, made efforts to serve their fellow villagers, and tried every way to help smooth the return of old Taiwan compatriots to Taiwan. Over the past two years, more than 40 Taiwan compatriots throughout the municipality returned to their hometown to visit their families and relatives, to call on patients, or to attend the funerals of their parents or grandparents. The majority of them have enjoyed the assistance of the All-China Federation of Taiwan Compatriots and the municipal Federation of Taiwan Compatriots. They also conscientiously implemented the party's policies on giving preferential treatment to children of Taiwan compatriots. Over the past three years, 174 children of Taiwan compatriots who met the appropriate requirements entered their model schools. The federation warmly received visitors of Taiwan origin and incoming letters from Taiwan compatriots and helped them eliminate difficulties and worries. Over the past three years, the federation received 350 visitors and incoming letters and wrote more than 260 letters in reply. The federation also worked in coordination with relevant departments and solved some funding problems

that young people of Taiwan origin face in studying abroad. It also helped young people from Taiwan studying in the mainland and Taiwan compatriots purchasing houses in the mainland. The federation also brought into play the advantages of folk organizations and concentrated their efforts on receiving Taiwan compatriots and on the economic work to extensively befriend the compatriots on and outside the island of Taiwan. Over the past three years, the federation received, on 180 occasions, more than 800 Taiwan compatriots who are living in Beijing. Of them, 88 percent were from the island of Taiwan.

For several years, Taiwan compatriots have increasingly visited Beijing to inspect the investment environment and conduct commercial consultation. This characteristic is noticeable. With the assistance of the municipal Federation of Taiwan Compatriots, the municipality has reached agreements on building four Taiwan-funded enterprises and has signed two letters of intent on investment.

The major tasks of the congress are to sum up previous work, elect new leading members of the federation, and define the work principles and tasks for the future.

Wang Jialiu, deputy secretary of the municipal party committee, and Guo Pingtan, vice president of the All-China Federation of Taiwan Compatriots, made speeches at the congress. Leaders of relevant departments, including Li Bokang, Gan Ying, Chen Zhongyi, and Chen Binfa, attended the congress.

### Beijing Mediators Settle Civil Disputes

OW1911181990 Beijing XINHUA in English  
1600 GMT 19 Nov 90

[Text] Beijing, November 19 (XINHUA)—The city's mediation conference opened today and 30 mediators were awarded titles as "best justice assistants" and "outstanding people's mediators."

Mediation is China's leading method in settling civil disputes and Beijing's mediators have successfully mediated 242,318 civil disputes concerning family relations, marriage, housing, money and property issues in the past four years.

Sun Changli, director of the Beijing Justice Bureau, said that Beijing now has 13,071 mediation committees with 94,011 mediators. The mediators serve in all areas of the city including counties, neighborhood communities, factories and mines. Since 1986, the mediators have averted 3,655 serious situations in which hostile parties were confronted with each other over disputes that could have caused death or injuries of over 6,841 people.

The mediators are popular amongst the people who say that their devotion has "enhanced the unity of neighborhood communities and families, provided a closer relationship between officials and ordinary people, and has promoted social stability and unity."

The people's mediation system, which began as a spontaneous practice among the masses under the communist-led revolutionary government, was improved at all levels following the founding of the People's Republic in 1949. The system saw even more improvement in 1954 when the State Council announced the "Provisional Organizational Regulations of People's Mediation Committees."

The practice was incorporated into the country's fourth constitution in 1982 as the mainstay for maintaining social order and as a channel for the populace to air their views, grievances and suggestions to the government.

An example of mediation in action occurred after a traffic accident last year in the Beijing suburbs. More than 100 people had gathered and were attempting to gain the release of the father of the individual responsible for the accident. The father had been held by the victim's friends.

Police and local mediators were informed of the situation and rushed to the scene to persuade those involved not to fight, and to discuss the proper manner to bury the dead. After the mediator persuaded the person at fault by informing him of related legal regulations, the individual promised to provide a decent burial for the deceased. This resulted in the hostile parties departing peacefully.

#### **Beijing Hosts More Hong Kong, Macao, Taiwan Visitors**

OW 1911085790 Beijing XINHUA in English  
08:22 GMT 19 Nov 90

[Text] Beijing, November 19 (XINHUA)—Over 308,000 Hong Kong, Macao and Taiwan compatriots visited the Chinese capital of Beijing in the first ten months of this year, it was learned here today.

The figure was 2.1 times the number of visitors coming to Beijing from Hong Kong, Macao and Taiwan in the same period of last year, according to statistics from the city's statistics bureau. It was also higher than the record number set in 1988. The visitors came to do business, visit relatives or have cultural, sports and other exchanges.

Of the visitors, 210,000 were Chinese compatriots from Taiwan.

As of the end of October, Beijing had 380 joint ventures with Hong Kong and 68 ventures run with Taiwan funding.

#### **New Governor Brings 'Zest for Change' to Henan**

HK2611022990 Hong Kong SOUTH CHINA  
MORNING POST (BUSINESS POST) in English  
26 Nov 90 p 11

[By Seth Faison]

[Text] China traders who are tiring of the depressingly slow signals of change from Beijing these days may find

a small ray of hope in recent news from the central province of Henan.

It seems that Mr Li Changchun, the determined and able pioneer of economic reform in China's northeast, has brought his zest for change to a new post in grain-producing Henan.

Since he transferred to Zhengzhou as governor of Henan in July this year, Mr Li has overseen the acceleration of plans to improve telecommunications and transport infrastructure, the CHINA DAILY has reported.

Mr Li, 47, is considered one of the brighter rising stars among reformers on China's political horizon, even if his big plans for Liaoning in the northeast were left largely unrealized in the mire of Communist bureaucracy.

It remains to be seen how he fares in Henan.

But if last week's CHINA DAILY report is only partly true, Mr Li is at least trying to shake up the lethargic provincial government, which the newspaper said had badly lagged behind other areas in the decade of reform.

Henan is home to 85 million people, which makes it the second largest province in China after Sichuan, and more populous than most nations in the world.

First on Mr Li's list is to get a decent roadway built between Zhengzhou, Loyang and Kaifeng, the province's well-known cities that are located along a relatively small 200 kilometre stretch of the Yellow River.

A proposed expressway is expected to cost around HK\$2.5 billion [Hong Kong dollars] and is scheduled for completion in 1996.

Major roads are also planned to link the city of Puyang with Loyang via Xinxiang and Jianzhao.

Provincial officials have said that the World Bank was currently considering the extension of US\$90 million in planned loans to pay for Henan's infrastructural improvements.

Also on the planning boards are designs for a new airport in the provincial capital of Zhengzhou that could accommodate all sizes of passenger and transport planes and would be equipped with modern facilities.

Officials in the province's planning commission were quoted as saying that the government was encouraging local cities to concentrate their efforts on a single area of development.

Zhengzhou, for example is expected to further expand its textile industry, while Loyang works on its heavy industry and Puyang its petrochemical industry.

Mr Li has also pushed for plans to install more than 200,000 new telephones, a number that the CHINA DAILY reported was greater than the existing total of only 145,000.

Mr Li would also like to develop the area's tourism industry to show off the historical relics that remain from several ancient dynasties that centred their administrations in the province.

The Longmen caves in Loyang, with their gigantic rock-carvings of buddhas in the side of an open hill, are a major tourist draw that is bypassed by many travelling groups.

### More Suggestions, Fewer Complaints for Beijing

OW2811201390 Beijing XINHUA in English  
1506 GMT 28 Nov 90

[Text] Beijing, November 28 (XINHUA)—The municipal government of Beijing has received a total of 44,292 letters, visits and calls from local residents in the first half of this year, a 47 percent increase over the same period last year.

The letters and calls are mainly composed of suggestions, criticisms and praises, or they expose unethical or illicit practices, an official from the municipal government told XINHUA.

"The opinions are mainly concerned with the Asian Games held in Beijing, city construction, environmental protection and unhealthy practices that are arising in some walks of life," the official added.

It was learned that 408 letters of praise were received during the period, almost four times that of last year.

## NORTHEAST REGION

### Heilongjiang's Wuchang County Groups Target Crime

SK2211103890 Harbin Heilongjiang Provincial Service  
in Mandarin 1000 GMT 20 Nov 90

[Text] By establishing the joint public security defense groups in rural villages, Wuchang County has changed the weak situation in crime prevention forces of rural areas. Over the past few years, the number of criminal cases of disrupting social peace in the county increased somewhat. In July 1989, the county's public security bureau employed through careful examination 2,080 public security personnel from 28 townships and towns across the county, who have been organized into the joint public security defense groups of rural villages, which are helping the public security departments carry out patrols, protect households, and cover the security of major public places.

Through the regular study of relevant documents, including the criteria for public security personnel, and the regularly concentrated training classes of backbone

personnel, and by studying the laws and policies as well as the knowledge of preventing crimes, the joint public security defense groups have upgraded the political and professional quality of members. Over the past few years, the county's joint defense groups have prevented nearly 1,000 criminal cases, provided more than 900 clues on criminal elements for the public security organs, and have captured more than 170 criminals in various cases. Since the beginning of 1990, the rate of criminal cases and cases disrupting public security has shown a 25-percent decrease from that of 1989. The masses across the county have generally enhanced their feeling of security. On 30 October, members of the joint defense groups put out in a timely manner the fire set by certain persons in Xingaheng Village of Xingaheng Township in the county and seized the arsonist and handed him over to the public security organ.

### Jilin To Abolish, Revise Service Charges, Fines

SK2311065090 Changchun Jilin Provincial Service  
in Mandarin 2200 GMT 21 Nov 90

[Text] On 21 November, the provincial government held a news conference to announce the decision to abolish and revise some regulations and standardized documents on the collection of service charges and fines and on the raising of funds for the provincial government and its general office. It also announced the provincial measures on implementing the central decision on checking the collection of unjustified service charges, fines, and levies and on strengthening management over bills for collecting service charges and fines. The spokesman said that, in order to successfully conduct our province's work of checking the collection of unjustified service charges, fines, and levies, beginning in mid-October, the provincial government's Public Security Bureau has led the provincial price bureau and the provincial auditing bureau to form groups to comprehensively check the regulations and standardized documents formulated by the provincial government and the general office of the provincial government since 1985. Through this decision, it was decided at the 21st executive meeting of the provincial government to adopt the decision on abolishing and revising the first group of 12 documents and 10 items on the collection of service charges and fines.

Of the stipulated documents, six concerning the collection of service charges and fines were abolished. These documents included: 1) The Jilin Province method for collecting extra charges from commodities under special control purchased by institutions. 2) The circular from the Jilin Provincial people's government's general office on printing and distributing the summary of the meeting held by the Jilin Province leading group in charge of the purchase of commodities under special control. 3) The circular on approving and transmitting some stipulations of the Jilin Provincial Industrial and Commercial Administrative Bureau on investigating and checking speculation, profiteering, and illegal acts. 4) The Jilin Province method on urging plants and mining enterprises to run schools or to raise funds for running schools



for trial use. 5) The provisional regulations of the Jilin Provincial people's government on punishing enterprises that violate the commodity quality laws and regulations. 6) The emergency circular from the provincial people's government on strengthening the export of dried vegetables and the management over the purchase of potherb mustard. Of the abolished documents, there were also four on the collection of service charges and fines involving six items. They included: 1) the item concerning the collection of fines and confiscation of cigarettes that are arbitrarily purchased or imported from other provinces; 2) funds for protecting the selling of [words indistinct], animal feed, and other natural resources to other provinces; and 3) additional service charges for selling tickets on a commission basis and charges for managing private motorcycles.

The spokesman said that, in order to strengthen management over bills concerning service charges, fines, and confiscations, the bills for fines and confiscations must have special fine and confiscation seals from the financial department. Bills for service charges must have special seals for bills from the Jilin Provincial Financial Department. Bills for fines and confiscations without seals from the financial department or bills made or bought by various departments and units without authorization are all illegal bills. Enterprises, institutions, and individuals have the right to reject payment. The bills for collecting service charges carrying seals from the financial department which are still in use by the service charge collection units will all expire at the end of 1990.

#### **Jilin Holds Forum on Cadre Transfer, Exchange**

SK2211080190 Changchun Jilin Provincial Service  
in Mandarin 2200 GMT 21 Nov 90

[Text] From 20-21 November, the Organization Department of the provincial party committee held a forum on exchanging office cadres on a rotational basis. The forum noted that it is necessary to put on the agenda the work of rotational exchanges of office cadres, channel it to a normal path, form a work system, and take active and reliable steps to carry out this work in all levels of organs across the province in a down-to-earth manner. The forum held that successfully carrying out the rotational exchange of office cadres is an inevitable demand of the development of the situation and the deepening of the reform of the cadre personnel system, an effective way to train and nurture cadres and comprehensively raise their quality, an important measure to raise the overall efficiency of organs, and a practical step for implementing the guidelines of the decision of the Sixth Plenary Session and for strengthening the building of party style and administrative honesty.

The forum stressed that we must take active and reliable steps to carry out the rotational exchange of office cadres in a down-to-earth manner, uphold party spirit and principles, and have a good command of the work orientation. In practical work, we should pay attention to upholding the principle of seeking truth from facts, the

principle of having the party manage cadres, the principle of encouraging cadres, and the principle of serving the overall situation. We should scientifically formulate the scope, targets, and forms for the rotational exchange of cadres, and consider different needs and situation. In the rotational exchange of cadres, we may adopt four forms, such as exchanging cadres in line with their competence, for the purpose of training, to supplement each other as needed, and to avoid nepotism. During the work, we must correctly handle the relationship between readjustment and stability, situation and results, and single reform and supporting reforms. We should strictly observe the work system for the rotational exchange of cadres, stress the practices of making individuals submit themselves to organizations, submitting partial interests to that of the whole, and making the lower level obey the upper level.

#### **Jilin Governor Discusses Work for 1991**

SK0312101390 Changchun Jilin Provincial Service  
in Mandarin 2200 GMT 1 Dec 90

[Text] On the afternoon of 30 November and on the morning of 1 December, Wang Zhongyu, governor of the province, sponsored a forum with the attendees from the training class of heads of counties and districts and of mayors of cities, which was sponsored by the party school under the provincial party committee.

During the forum, Comrade Wang Zhongyu delivered a speech in which he stressed that in conducting economic work in 1991, we should continuously uphold the principle of regarding the work of increasing economic results as a center.

Gao Yan, member of the provincial party standing committee and director of the Organization Department under the provincial party committee, presided over the forum.

During the forum, the participating comrades analyzed and summarized by seeking truth from facts the situation in the province's economic work. In line with local reality, they offered constructive opinions on the province's economic work in 1991. The participating comrades unanimously agreed that 1990 has been the most difficult year for the province in improving the economic environment, rectifying the economic order, and deepening the reform drive. The people throughout the province, under the leadership of the party committee and the government, have overcome many difficulties by adopting every possible method. The province's situation in both the economy and politics has been fine. Agricultural output has increased overall and industrial production has begun to rise again through the work of overcoming the difficulties and has caused a trend of stable increase. The economic environment has been improved and the gap between the general supply and demand has been gradually narrowed. [words indistinct] and exports have shown a certain increase.

While summarizing economic work during the forum, the participating comrades also earnestly analyzed the difficulties in economic work and the tasks for improving economic work. They agreed that the province, to date, had not achieved a turn for the better in overcoming these difficulties. The overstocking of products has been serious, economic results have been poor, economic development has been [words indistinct], and some deep-rooted problems have not been handled satisfactorily. To overcome these difficulties and deal with these contradictions, it is still necessary for us to make industrious efforts.

After earnestly hearing the opinions and suggestions raised by the participating comrades during the forum, Comrade Wang Zhongyu emphatically voiced his opinions on work for 1991. He stated that 1991 is the crucial year for further implementing the principle of improving the economic environment, rectifying the economic order, and deepening the reform drive. It is also the first year of enforcing the Eighth Five-Year Plan. The overall arrangements for economic work in 1991 are being studied, but we should emphatically do well in grasping the following several tasks: Efforts should be made to readjust the product mix to increase economic results, to invigorate the markets to enliven the circulation of commodities, to import advanced domestic technologies, to establish economic associations with outside areas to promote development, and to stabilize the development at a sufficient rate. Economic work as a whole should be carried out around the center of increasing economic results.

In order to successfully grasp economic work in 1991, Wang Zhongyu demanded in his speech that while successfully grasping the work in the last month of this year, a good job should be done in grasping the preparatory work of 1991, including the preparations of ideology, materials, and work. A good job should also be done in laying a solid foundation for the 1991 work and in striving to make a good start in the 1991 work.

### Liaoning Lawyer Mediates Foreign Economic Disputes

OW0512025890 Beijing XINHUA in English  
0156 GMT 5 Dec 90

[Text] Shenyang, December 5 (XINHUA)—Yin Xiuguan, 61, a senior Chinese lawyer from northeast China's Liaoning Province, has won fame, both inside and outside China, after successfully mediating a number of cases involving foreign economic disputes.

Yin was one of the founders of China's first lawyers association in Liaoning Province after the country reinstituted its lawyers system in 1979. The senior lawyer established China's first foreign economic law office, which provided services for expanding foreign economic exchange activities, in the country's largest industrial province in 1984. Since that time Yin has served as a law advisor to 18 enterprises in the province.

Yin's law office, which employs four lawyers, has dealt with over 100 foreign economic dispute cases since 1984. Thus far the office has established lawyer-client relationships in a number of foreign countries and regions including the United States, Taiwan, Japan, Australia and Germany.

A corporation in the United States and a company in Taiwan have enlisted Yin to act as their law advisor. Recently, a law office, from the state of Kentucky in the United States, sent Yin a letter of intention stating their desire to sign a co-operation accord.

Since 1985, Yin has mediated a number of economic dispute cases between Chinese enterprises and foreign companies, and as a result no lawsuits were required.

In 1982, the Shenyang Tool Plant (STP) signed an accord valued at 930,000 U.S. dollars with a U.S. corporation. The accord stipulated that STP could use a patented process of the U.S. side to produce implements, which would then be sold only to the U.S. corporation. The accord further stipulated that the patent technique offered by the U.S. corporation must be kept secret.

However, a technician from STP provided another factory with technical information he had brought home with him after finishing his study at the U.S. corporation—a direct violation of the signed accord. The unnamed factory then sold its products to local shops.

Yin conducted an investigation, after which he suggested that the U.S. corporation solve the problem through appropriate administrative departments.

As a result of Yin's investigative report the Shenyang City government disciplined the technician, and instructed the factory concerned to cease production and marketing of the implements. After successful resolution of the problem the U.S. corporation resumed co-operation with STP in 1986.

Yin mediated another dispute in 1983 after the Shenyang Semiconductor Device Plant (SSDP) purchased an updated micro-luminous tube production line from Itoh Electronics (IECL) Corporation Ltd of Japan for 330,000 U.S. dollars. Investigations revealed that the equipment in question had actually worn out prior to world war two, and after installation the entire line failed to work properly.

The plant asked Yin to intervene. Yin contacted IECL and soon the Japanese corporation sent technicians to check the equipment. As a result of Yin's mediation SSDP received a new production line in the spring of 1985. Since that time Yin has served as SSDP's law advisor.

Yin's record of successful meditation has made the province's enterprises aware that economic dispute cases with foreign countries, as well as routine trade problems can be solved by using lawyers to mediate, rather than

requiring the participation of local governments. In addition, many enterprises now consult with lawyers before they begin business.

Matters involving legal advice are increasing due to the improved investment environment in Liaoning Province, which now has 1,015 foreign-funded enterprises with a total investment of 2,500 million U.S. dollars. During the first 10 months of this year alone 268 foreign investors have signed agreements with the province—a 25 percent increase over the same period last year.

Liaoning Province now has 3,500 lawyers. Cities located on the Liaodong Peninsula, which have opened to the outside world, including Shenyang, Dalian, Dandong and Yingkou, have established law offices to deal with foreign affairs. At the present time over 50 lawyers are engaged in this particular law practice.

Although the business of law is developing rapidly in Liaoning Province, Yin says that China still needs to make a greater effort to set up a better law management system in order to further promote the rights and duties of lawyers.

#### **Shenyang To Host Traditional Medicine Forum**

OW0512214890 Beijing XINHUA in English  
1107 GMT 5 Dec 90

[Text] Shenyang, December 5 (XINHUA)—An international symposium on traditional Chinese medicine is to be held in Shenyang, the capital of northeast China's Liaoning Province, in June next year.

Medical experts from the United States, Canada, Singapore, Japan, South Korea, the Soviet Union, Hong Kong and other countries and regions will attend the symposium.

XINHUA has learned that well-known Chinese doctors of traditional Chinese medicine, acupuncture and moxibustion, and qigong—a system of deep breathing exercises—will demonstrate their traditional therapies. In addition, hundreds of ready-made medicinal herb drugs will be exhibited at the symposium.

Chinese professors and acupuncturists will present lectures on their unique or special therapies such as effective treatment of atrophic gastritis, diseases of digestive system, ichthyosiform dermatitis and non-operational treatment of lithous diseases.

### **NORTHWEST REGION**

#### **Shaanxi Meets on Enterprise Ideological Work**

HK1611070790 Xian Shaanxi Provincial Service  
in Mandarin 0030 GMT 13 Nov 90

[Text] The provincial conference on enterprise ideological and political work concluded yesterday.

The conference analyzed the situation, summarized and exchanged experiences, and further defined the position and role of enterprise ideological and political work. By discussing new problems and new characteristics of enterprise ideological and political work in the new situation, all the participants at the conference broadened their vision and strengthened their confidence in pushing ahead with the development of our province's enterprise ideological and political work.

(Fei Yimin), member of the Standing Committee of the provincial party committee, presided over and delivered a concluding speech at yesterday's closing session. He held that the conference is a [words indistinct], large-scale, and very important meeting held by our province's ideological and political front. The conference summarized and exchanged the experiences in conducting education on the basic national situation, the basic line, the current situation, and the Yanan spirit and in carrying out ideological and political work by relying closely on the working class [words indistinct].

In his concluding speech, (Fei Yimin) reiterated that the key to promoting the development of enterprise ideological and political work at present lies in giving full scope to the authority of ideological and political work, guiding the broad masses of staff and workers to correctly view the current situation, brace up, and overcome difficulties. He pointed out that, first, it is necessary to maintain stability and smooth out both the ideology and the sentiments of the staff and workers. Second, it is necessary to mobilize the enthusiasm of the masses in a down-to-earth manner. Third, it is necessary to firmly grasp work concerning party and government cadres and implement the fundamental principle of wholeheartedly relying on the working class to the letter.

(Fei Yimin) stressed that it is necessary to take education on the basic national situation and the basic line as one of the important tasks of enterprise ideological and political work in the next two to three years and to strengthen ideological and political education among the young staff and workers in small groups and by stages in order to strengthen their faith in socialism [words indistinct].

#### **Xinjiang Issues New Press Cards**

OW2711232790 Urumqi XINJIANG RIBAO in Chinese  
15 Nov 90 p 1

[Text] It has been learned from the regional press and publications bureau that the use of new press cards will officially begin in our region on 15 November. Old press cards are being declared invalid.

Previously, because of lack of unified management, the issuance and use of press cards were quite chaotic; this has directly affected journalists' normal news gathering activities. To safeguard their legitimate rights, the regional press and publications bureau, acting in accordance with Press and Publications Administration regulations on the issuance of press cards, reviewed the list of



applicants for the press card submitted by newspapers, radio, television stations, and other regional mass media units. Issuing press cards to the first batch of journalists has been basically completed. [passage omitted]

A responsible person at the press and publications bureau said that, with the issuance of the new press cards, old press cards issued by mass media units are forthwith invalidated. Continued use of old press cards or falsification of new cards is illegal. All regional social circles are asked to closely cooperate with public security and judicial departments to strengthen inspection and supervision.

### Scientists Explore Xinjiang's Taklimakan Desert

OW1611171190 Beijing XINHUA in English  
1527 GMT 16 Nov 90

[Text] Urumqi, November 16 (XINHUA)—A scientific expedition successfully walked across the Taklimakan Desert in northwest China's Xinjiang Uygur Autonomous Region early this month and obtained a great deal of first-hand information.

The exploration was organized by the Xinjiang Agricultural Division Committee. The team was composed of 23 scientific workers of the Han, Hui, Uygur and Mongol nationalities from the Xinjiang Institute of Biology, Pedology and Desert Studies, the Geography Department of Xinjiang Normal University, the Xinjiang Museum, the Xinjiang Land Administration, the Remote Sensing Center of the Ministry of Geology and Mineral Resources and the Agricultural Bureau of Hotan Prefecture in Xinjiang.

Li Binglu, 28, of the Han nationality, was the only woman on the team, and the expedition was accompanied by a five-member Japanese TV crew.

The team took one month to investigate the Keriya River Valley, which rises in the northern part of the Kunlun Mountains, and the Yutian Oasis before it entered the Taklimakan Desert October 15.

With seven Uygur porters and 60 camels carrying equipment, food and water weighing about 10 tons, the team covered a distance of 276 km on foot. They encountered unfavorable natural conditions like sandstorms, hot and frigid weather. They finally got to their destination—Xayar County on the north bank of the Tarim River November 5.

The scientists investigated the connection between the Keriya and Tarim Rivers, cause of desert formation and plant distribution. They also did extensive mapping.

The Japanese filmed a TV documentary on the expedition.

### Reform Brings Changes to Xinjiang's Kazakhs

OW1711200890 Beijing Television Service in Mandarin  
1100 GMT 17 Nov 90

["Report from the Great Northwest"; from the "National News Hookup" program]

[Text] Xinjiang's Kazakh population totals more than 1 million. Buffeted by the great tide of reform, members of this nomadic tribe, known for their propensity to do everything on horseback, have undergone profound changes in their lifestyle and outlook. [video shows a young Kazakh woman and man talking to foreign tourists]

In Tianchi, a famous mountaintop lake in Xinjiang, young Kazakh herdsmen speak English, Japanese, and Mandarin when receiving foreign tourists. These Kazakh herdsmen, whose ancestors were nomads, have learned how to bargain with their customers. Some of them have even opened restaurants and tent guesthouses. Reform and openness have helped these people on horseback join the mainstream of the commodity economy by discarding their traditional notion that trade is a sully occupation.

Baidayi, the first herdsman to take advantage of tourists, has thus shaken off the label of [words indistinct] and become a prosperous householder. He has donated 2,000 yuan to his hometown's primary school and cultural center. He sends his son Ngapoiyi to a language school.

[begin Baidayi video recording] Once I did not understand the Chinese language. In 1988, I enrolled myself in Xinjiang University, paid my own way, and studied there for a year. Now, I can tell foreigners and people from Hong Kong about Tianchi. [end video recording]

The first rural travel agency run by herdsmen was set up in Sangonghe Township in Fukang County, located at the foot of Tianchi.

Kazakh embroidery, once used to spruce up tent interiors, is in demand on the international market. In August, the United Nations named Mori County's Kazakh Embroidery Factory a key project in assisting its population development fund.

Changes in production processes and concepts have prompted new lifestyles. Encouraged and assisted by the government, groups of Kazakh herdsmen have abandoned their nomadic ways and settled down. Prosperous herdsmen now need two or three trucks to transport their belongings; previously all their worldly goods would fit on the backs of two or three camels. The Kazakh people's penchant for eating only meat and cheese has become a thing of the past; now tables are laden with delicious vegetables and noodle dishes. Instead of worrying about the weather when raising livestock, Kazakh herdsmen now use scientific methods to grow forage grass and renovate livestock pens to further promote animal husbandry.

**END OF**

**FICHE**

**DATE FILMED**

*11 January 1991*